CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2018

CITY OF
HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2018

Prepared by:

The Finance Department

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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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INTRODUCTORY SECTION

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FINANCE
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March 20, 2019

Honorable Mayor, City Council
City of Highland Village
Highland Village, Texas

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2018.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Highland Village's financial statements for the year ended September 30, 2018. The independent auditor's report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditor's report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. The City is primarily residential.

The City's estimated 2018 population is 16,100, just a 2% increase over the past 10 years. Years of sustained growth in population in previous years has brought the City closer to build-out, evidenced by the reduced number of single-family residential permits now being issued. The City

is currently approximately 95% built out, with approximately 258 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is 2025. Over the last five years, the City has averaged 20 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2017 Tax Roll was $366,221.

The City of Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing council (City Council), consisting of a mayor and six other members, all elected at large. The Council appoints the City Manager, who in turn appoints the heads of the various departments. All council members are elected for two-year terms.

This report includes all funds and account groups of the City. The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and infrastructure; recreational facilities and cultural events. In addition to general government administrative services, the City provides water, sewer and sanitation services. The City is also financially accountable for a legally separate component unit – the Highland Village Community Development Corporation, which is reported as a blended component unit within the City of Highland Village's financial statements (see Note 1A for additional information).

The Council is required to adopt a final budget by no later than September 30th – the close of the fiscal year. This annual budget serves as the foundation for the City of Highland Village's financial planning and control. The budget is prepared by fund, category (personnel, services/supplies, capital) and department (e.g., police, fire, human resources). Departments may reallocate resources within a category, but reallocation between categories or departments requires council approval.

Local Economy

The national economy has performed well with increased growth, with the North Texas economy continuing as a bright spot. In general, North Texas as a whole continues to experience substantial growth, with job creation at higher levels than much of the nation, as well as adding a number of corporate relocations to this area. The area housing market has grown steadily and existing homes have experienced increased value over the past few years. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately $220,024. There were 31 single-family permits issued during fiscal year 2017/2018 for a total construction value of $6,820,729. In addition, there were 5,538 water connections, with 5,185 being the total residential. Since the City's residential tax base is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 27 commercial permits issued during the year for a total construction value of $4,858,331. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past twenty years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Phase II of this development was completed in October 1997. Kroger's grocery chain has been the anchor commercial development in the Town Center complex, however closing in FY 2016. The space has now been occupied by Painted Tree. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999. A merger with Independent Bank in 2012 further solidified the bank and now serves as the City's depository.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 in the western part of the City provides additional economic stimulus for the City - particularly now that TXDOT has constructed a segment that extends this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. And this, in turn, greatly enhances the commercial value of the developments at the FM 407 and FM 2499 intersection with the resulting increase in traffic.

Village Creek Center, started in the mid 1980's, added three new buildings in 1999 to complete their site plan. This center includes restaurant facilities and professional office space. In 2000, a two-building professional office development was completed and fully leased, with plans to expand by another building. Also in 2000, Tartan Village Retail Center opened with 6,000 square feet of retail space and Barnett Center constructed a childcare facility. The Barnett Center added an animal hospital in 2002 and a 56,000 square foot assisted living facility was added in 2003, with a 35,000 square foot extensive care addition completed the following year.

Celebrations, a 12,000 square foot banquet hall, was completed in 2003, updated in 2015 with new owners with addition of a chapel – transforming the facility to a wedding / reception facility. A 17,000 square foot retail center, Tartan Square, was added in 2004. Highland Village Business Park was completed, with two office / professional buildings totaling 16,000 square feet, in early 2005.

With limited remaining undeveloped commercial property in Highland Village – primarily located along FM 407 and FM 2499, the City focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. At the northeast corner of this intersection - the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 square foot Wal-Mart Super center, also including approximately 280,000 square feet of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development opened in September 2007. Barnes & Noble and an AMC Theater anchor the 380,000 square foot center, with upscale retail stores including Banana Republic, Victoria's Secret, as well as a variety of restaurants. The Shops at Highland Village is a pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City's Inland Trail system. And the addition of Whole Foods in September 2014, further cements the vitality of this development.

Just east of the Marketplace, The District of Highland Village, initially approved by Highland Village City Council in March 2007, was planned as a "Main Street" center with retail and residential townhomes. Construction of the first phase was completed, but additional construction stalled due to the economic downturn. A redesigned plan was presented to City Council in FY 2011, but denied – prompting a lawsuit by the property owner based on the City's denial of the rezoning request. During the ensuing year, the City and its legal counsel thoroughly defended against the

claims made in the lawsuit. City officials and staff worked diligently with the property owners to settle their dispute, resulting in approval by City Council in November 2012 of a new development plan to provide open air plazas for a mixed-use development of residential lofts, retail, and office professional facilities, offering a unique and desirable high-end loft living lifestyle currently not available in Highland Village and adjacent cities. Construction initiated in 2014 and now entails eleven buildings of residential and retail totaling over 380,000 square feet.

The City is primarily a residential community with a relatively small commercial base. New residential construction has slowed from previous years, with substantial residential build-out expected in the near future. Roughly 258 potential lots remain, most of these associated with several developments in the western portion of the city, providing very modest residential building activity. In particular, Ladera, a retirement community development of 102 units, initiated construction in FY 2018, with 22 permits issued, and the remaining expected the following year.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 3.1% as of September 2018.

Long Term Financial Planning

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council has been to maintain the current tax rate. Above-average increases in assessed valuation the last several years has provided an opportunity to have a tax rate reduction. However, with declining growth in new valuation added to the tax roll, coupled with proposed State Legislation to implement revenue caps, this provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is to maintain current staffing levels through residential build-out and seek efficiencies where possible, without compromising the City's excellent level of service.

Future water supply, pumping facilities, and wastewater treatment will also continue to be a focal point of meeting growth demands through build-out. Highland Village has contracted with the Upper Trinity Regional Water District (UTRWD) to take three million gallons of water per day (MGD). This water supply supplements the City's four productive water wells. A utility rate structure was updated to provide a 70/30 mix of surface water and ground water respectively. Additionally, the utility rate structure was revamped to provide for a substantially higher amount collected at the base level rather than the previous method of relying on higher summer usage with tiered rates. This will provide a more consistent revenue stream that is less dependent on weather patterns and fairer method of distributing costs to residents.

To meet the City's wastewater needs, a long-term solution was finalized in June, 1995, with 1.8 million gallons per day treatment contract with the Upper Trinity Regional Water District's Lakeview Wastewater Reclamation Project, which provided for a participatory contract to meet the City's build out wastewater effluent needs. In the initial stage of this contract, developer contributions (Impact Fees) have paid the bulk of the annual commitments with the existing ratepayers paying a minimal portion of the contract cost. The City's current capacity is at 1.65 MGD, but the City may

reinstate the 1.8 MGD capacity at a future date, if needed. The subscribed capacities for both water and sewer are generally expected to be sufficient through build-out.

A municipal drainage utility was formed at the end of FY 2006 to fund a storm water quality program and related drainage projects necessitated by Phase II MS 4 Storm Water Regulations – administered by the Texas Commission on Environmental Quality (TCEQ). A rate of $1.20 per 1,000 square feet of impervious cover was established to fund this program – unchanged until FY 2015 when adjusted to $1.40. The monthly average for most City residents is roughly $5.00. The utility has a staff of five positions and has procured needed equipment. The utility has achieved great success, already completing a number of needed drainage projects - also achieving substantial cost savings by averting contracting of these projects. In FY 2013, an aggressive mosquito abatement program was developed to address the significant increase in West Nile Virus, and is ongoing.

The City continues to address park programs to meet the changing needs of the community. The governing body adopted an ordinance in 1991 to establish Park Development Fees to be paid by the development community. These fees are dedicated to Park Development. This ordinance was revised in 1997 to collect fees for three components – community park, inland trail system, and neighborhood parks. Phase I of the development of Unity Park was completed and was utilized in full for athletic activity in early 1996. In September 1996, $1,850,000 in General Obligation Bonds was issued to complete Phase II of Community Park and provide improvements to other City parks. Phase II of the Park, completed in April 1997, includes lighting, restrooms and concessions. Additional parking and restroom enhancements were added in 2012 funded by a certificate of obligation. An inter-local agreement with the Lewisville Independent School District allows the City and Briarhill Middle School (adjacent to Unity Park) to share common facilities. Completion of Village Park in 2005 provided a neighborhood park in the western quadrant of the City.

An additional primary focus of the City has been the establishment of a comprehensive trail system throughout the City. The initial spine (9.83 miles) of the trail system was initiated with securing a $1 million TEA-21 grant. This was completed in 2006 with a cost of $1.7M. Voters approved a ½ cent 4B sales tax in November 2004 – specifically targeted for trail development and a soccer complex. Future development of the trail system is to be primarily funded by the 4B sales tax. A $3M bond issue in 2008 provided funding for the next section – with another $3.8M bond issuance in FY 2009 to further expand the trail system in the City. A continuous trail segment now spans the length of the entire City. Ultimately, 28 miles of trails are envisioned in the Trail Master Plan.

The Doubletree Ranch property, 36 acres in the eastern portion of the City, was purchased in 2009 with funds from a certificate of obligation – with the associated annual debt service to be reimbursed to the City with 4B revenues. In FY 2014 a $6.7M Certificate of Obligation was issued to supplement remediation funds of $2.8M previously received from TxDOT associated with the loss of Copperas Branch Park resulting from the expansion of I-35 - to be redirected to Doubletree Ranch Park, to fund park construction. Accordingly, construction commenced in FY 2014. The Park substantially opened in August 2016, providing open space, trails, and soccer fields, in a pristine setting. In addition, a splash pad, concession barn and pavilion are heavily utilized.

Lakeside Community Park was completed in 2015, also utilizing 4B revenues. This park – with water front access to Lake Lewisville, includes a ¼ loop trail, two pavilions, all with fantastic lake views. A number of recreation programs are offered in the City. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful.

Major Initiatives

The City's staff, following specific directives of the City Council and City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following are initiatives and programs relating to general governmental functions:

- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the submitted 2017 Comprehensive Annual Financial Report (CAFR).
- Received the GFOA Distinguished Budget Presentation Award for the Fiscal Year 2018 Budget.
- Implemented a new utility rate structure to provide an increased percentage of revenues at the base level, with a flat rate up to 50,000 gallons. This structure provides more consistency in revenues and more fairly distributes costs that reflect the fixed nature of costs. It also provides consistent rates for reasonable irrigation (up to 50,000 gallons), with an inflated rate above this threshold. Actual revenues received in Fiscal Year 2018 followed the rate model very closely.
- Marketing and graphic design has significantly increased and improved for City events. An annual contract was signed with NTX Child Magazine to include advertising for our events. Additionally, advertisement of upcoming events are created on a one sheet and placed in visible locations throughout our parks. Stories are regularly posted to the HVParks.com home page and the city website home page to promote upcoming events.
- Worked with Human Resources to educate and promote the new wellness program, WellRight, and continue to create graphics for annual challenges and upcoming events.
- The department continues to receive awards recognizing the quality of work being created to promote the City, our businesses, and educate residents on key issues. The City received the TAMI Award for Best Recurring Special Event for populations under 100,000 for the work done on the Unity in Communities event. The Award of Honor was given for the Foodie Friday videos produced in partnership with Jay Marks to promote our local restaurants.
- The department has increased its role in the TXFallenPD Tribute Event by creating all of the marketing and sponsorship material, serving as the point of contact for all vendors, and promoting the event on social media.
- Continued the implementation of CityWorks Permitting, Licensing, and Land (PLL) program. Permits are being entered electronically, thus enhancing the process by making it more streamlined and transparent.
- Implemented CityWorks (work order system) for Code Enforcement.
- Performed a total of 4,313 inspections.
- Proactively responded to 277 requests from the public for City records made through the Public Information Act (Open Records). In an effort to expedite the processing of requests and preserve paper, requests can be made electronically and responsive records are provided electronically whenever possible.
- Upgrade the Early Outdoor Warning Sirens (EOWS) across the City and install a new EOWS at Sunset Point Park.
- Established a continuing education program for all of the Police Department Emergency Care Attendants (ECA) through CE Solutions.
- Established an annual pump operations training program.

- Implemented an online employee wellness program, WellRight in January of 2018. The first year consisted of identifying additional training needs, working with Information Services to establish Single Sign On (SSO), and working with the Marketing and Communications Department to create communication materials. Participation stayed consistent with the change to WellRight with the expectation to increase in the coming years.
- Frances Pelley, with Strategic Government Resources, presented Written Communications and Open Records Awareness training for all city employees. This training inspired Council to discuss and revise the City's mission statement, values, and objectives.
- Worked with the Police Department to improve recruitment and onboarding strategies as well as implementing a new Police Recruit program.
- Created a multi-jurisdictional Automated Vehicle Location (AVL) map for the Police Department with the City of Lewisville.
- Began the replacement and/or upgrade of more than 78 cameras throughout the City. In conjunction with this, implemented a new Video Management System.
- Implemented a citywide cyber security testing program and training for all employees.
- Integrated 9-1-1, radio, and non-emergency phone lines into one system for Dispatch.
- Upgraded and went live with all non-review permit applications online.
- Worked with the Parks and Recreation Department to revamp their work order system and add a custom mobile inspections module.
- Worked with the Parks and Recreation Department to provide mobile notifications to staff concerning the splash pad pump house equipment.
- Worked with Frontier to install a Wi-Fi mesh for Doubletree Ranch Park in order to provide free Wi-Fi for park patrons.
- Completed installation of the dry fire suppression system in the Public Works server room.
- Installed new energy efficient LED lighting in the Communications Center.
- Inspected all of the stone walls at the Public Works building and the Robert & Lee DuVall Center, as well as removed and reinstalled the stone caps with new weather tight barriers.
- Installed a new ductless HVAC system in the Public Works server room.
- Completed the installation of a new fuel management system.
- Installed metal roofs on the Municipal Complex, Fire Station, and the Public Works buildings.
- Completed installation of the Police Department parking covers to protect public safety units from weather damage.
- With the completion of the IH 35 project, Copperas Branch Park was returned to the City. Prior to re-opening it to the community, we:
    - Rebuilt the boat dock, established a beach and swim area, repaired the restroom building, installed new signage, Installed access paths over the drainage ditch to the field, installed parking lot gates and a self-pay station, trimmed and removed dead trees.
- Completed renovation of the overnight restrooms at Pilot Knoll Park.
- A departmental maintenance and needs assessment was performed, resulting in the reorganization of the department as well as the addition of a Pest Control & Herbicide Technician. Additionally, the procurement of new equipment and an improved staff training program were also results of this assessment.
- Completed the automation of chemical feed for the Doubletree Ranch Park splash pad.

- Installed a Thor Guard Lightning Prediction system at Brazos Park.
- Improved working relationships with our youth sports, specifically improved communication between staff and program administrators with a focus on collaboration and trust.
- Added two new events, the Tri-City Amazing Race and Christmas at the Ranch.
- Increased the department's volunteering program by 400%.
- Received the Reginal Award for Park Design Excellence.
- Received the Texas Amateur Athletic Federation (TAAF) Gold Member City Award.
- In April the Police Department achieved its third Re-Recognition from the Texas Police Chiefs Association Best Practices Recognition Program. This award recognizes the department's compliance with best practices since 2009. The program, similar to accreditation for universities, schools, and hospitals, has established a set of 168 professional standards based on Texas law, contemporary best practices, and court decisions. The standards address a full range of law enforcement operations such as use of force, protection of citizen rights, property and evidence management, and more.
- Public Safety response times now exceed the industry standard 99% of the time, moving from 96% in 2015 and 97% in 2016. Public safety enhancements, such as new computer aided dispatch software, new radio system, and implementation of the Emergency Care Attendant program for all Highland Village Police Officers has contributed to the improvements.
- The department added an additional School Resource Officer (SRO) for Fiscal Year 2019. Our SRO program is a huge part of our department's Value Based Policing Model by mentoring and positively impacting over 2,000 of our enrolled students and future adults.
- Protective parking canopies for police vehicles were constructed to protect the police fleet from weather damage and will help extend the life of the fleet. Eventually, electrical outlets for battery charging will be added to complete the project.
- In partnership and cooperation with the Fire Department, an Emergency Care Attendant (ECA) Program for all Patrol Officers continues to benefit the city. The program provides first responder training and certification in basic life support and emergency field techniques, proper patient stabilization, and care until EMS personnel with a higher level of care arrive. Police SUV Explorer vehicles make it possible with their extra storage space to carry specialized ECA equipment, including medical bags and Automated External Defibrillators (AED's).
- We began the fourth year of a four-year contract with The Shops at Highland Village. The contract funds two Police Officer positions, at no cost to the City, and provides for a Police Substation located at The Shops at Highland Village. The program has averaged over 355 hours a month and has been very successful in keeping crime low and increasing positive officer interaction with our local business community.
- In October 2017 the Police Department helped raise over $42,000 for the Texas Police Chiefs Association's Fallen Officer Fund/Foundation. The Fund provides monetary assistance to families of Police Officers killed in the line of duty.
- The Police Department is committed to fundraising and educational awareness for Special Olympics Texas. The Police Department helped raise over $70,000 through numerous events including Steak and Stetsons, shirt sales, Tip a Cop, and community car washes. Personnel participated in both the spring and summer games held at the University of Texas at Arlington.
- An estimated $38,000 in gifts was raised for Denton County kids and families in need during the annual Stuff a Cruiser Toy Drive.

- Updated the condition index rating of all pavement streets receiving overlays or maintenance.
- Completed the 2018 Street Overlay Project.
- All divisional staff completed their continuing education as required for the NHI Street Department Certification.
- Continued using slab lifting techniques where applicable in an effort to preserve concrete pavement sections.
- Maintained the water and wastewater systems per TCEQ mandates, and maintained the Outstanding Drinking Water System Award from TCEQ.
- Maintained the Superior Water System rating awarded to Utility Operations through TCEQ.
- Maintained the Fire Hydrant Maintenance Program per TCEQ mandates and ISO rating standards. As part of this program, sandblasted and painted over 600 fire hydrants.
- All employees obtained, or maintained, licenses above and beyond their job description.
- Excavated and repaired 60 water main breaks, service line leaks, and sanitary sewer line breaks.
- Smoke tested and repaired 20% of the sanitary sewer lines.

Relevant financial policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to at least 20% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 34% in both FY 2013 and FY 2014, 32% in FY 2015, 37% in FY 2016, 47% in FY 2017, slightly decreasing to 44% in FY 2018. Financial policies provide for one-time or non-recurring revenues not being used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes. Fund balance levels are currently higher than anticipated to be necessary on an on-going basis. Financial policies call for the City to maintain a fund balance within a range of 20% - 25%. A gradual plan is intended to reduce fund balance levels to this range – specifically by funding capital items with excess reserves. A continuing priority is to ensure sufficient revenues are available for the level of operating expenditures.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2017. This was the twenty-fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

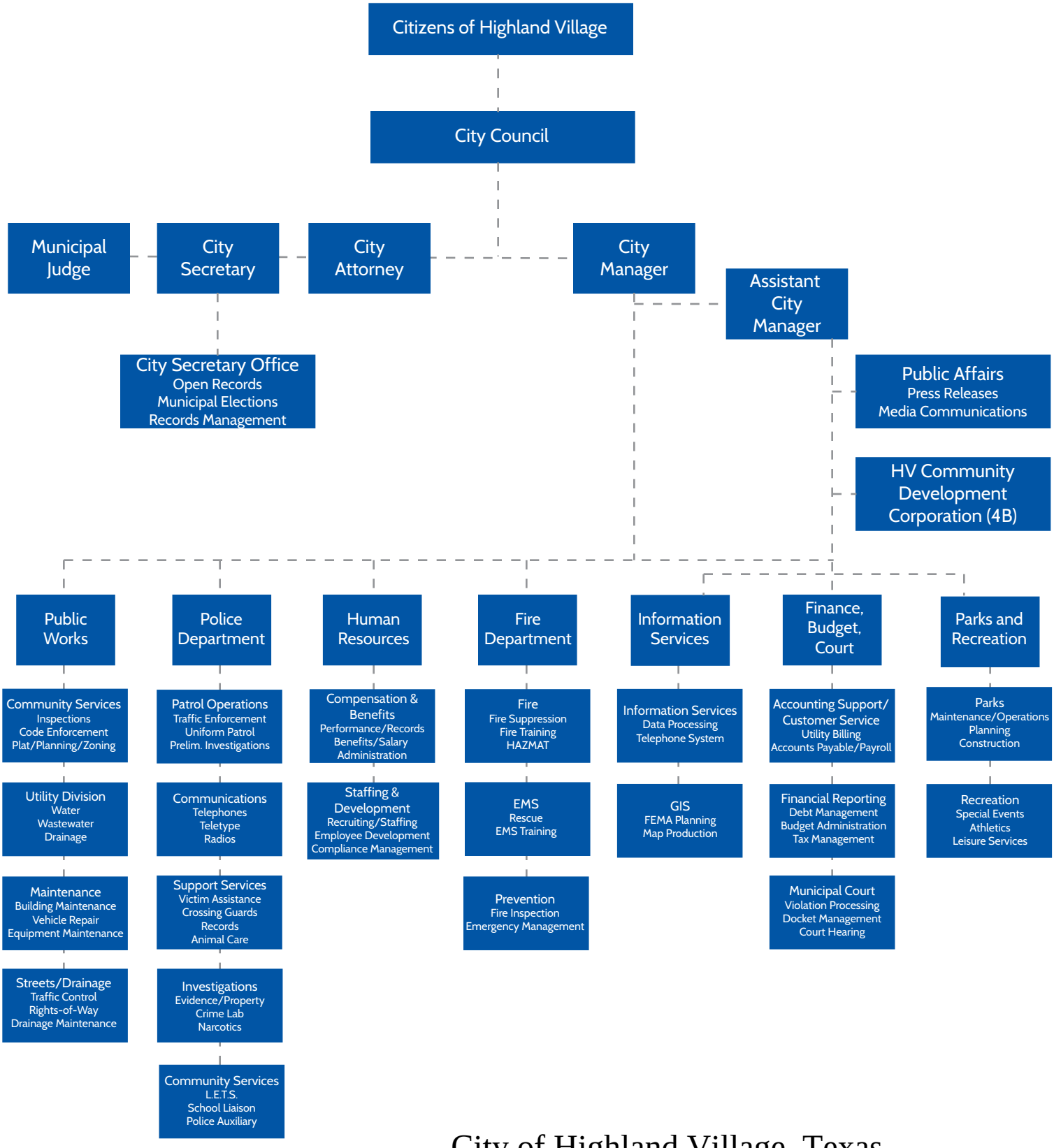
In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2018– the City's twelfth consecutive receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department. Thanks especially to Heather Miller for her hard work toward the completion of this document and continued commitment to excellence in accounting standards. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

Sincerely,

Ken Heerman
Assistant City Manager



City of Highland Village, Texas
Organizational Chart
Fiscal Year 2017 - 2018

CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OCTOBER 1, 2017 - SEPTEMBER 30, 2018

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		Term Expires
Charlotte Wilcox, Mayor	Place 1	05/2020
Jon Kixmiller	Place 2	05/2020
Mike Lombardo	Place 3	05/2019
Barbara Fleming, Deputy Mayor Pro Tem	Place 4	05/2020
Fred Busche, Mayor Pro Tem	Place 5	05/2019
Robert Fiester	Place 6	05/2020
Daniel Jaworski	Place 7	05/2019

ADMINISTRATIVE

Michael Leavitt	City Manager
Angela Miller	City Secretary
Ken Heerman	Assistant City Manager
Scott Kriston	Director of Public Works
Doug Reim	Police Chief
Michael Thomson	Fire Chief
Jana Onstead	Human Resources Director
Phil Lozano	Director of Parks & Recreation
Sunny Lindsey	Information Services Director
Laurie Mullens	Director of Communications

Prepared by:
City's Finance Department

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Executive Director/CEO

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FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and City Council
City of Highland Village, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

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the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, in fiscal year 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the City of Highland Village Texas' fiscal year 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Village, Texas' basic financial statements. The introductory section, combining and individual fund financial statements and schedules, capital asset schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules, and capital asset schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules, and capital asset schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of the City of Highland Village, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the City's effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Highland Village, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 26, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Highland Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $54,369,023. Of this amount, $5,848,512 may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of Highland Village's total net position increased by $726,883. A $414,421 decrease in net position related to governmental activities was offset by an increase of $1,141,304 in net position in business-type activities. Additionally, there was a $253,156 decrease in net position presented as a prior period adjustment related to the adoption of GASB 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*.

- As of September 30, 2018, the City of Highland Village's governmental funds reported combined ending fund balances of $15,395,464, an increase of $6,737,121 in comparison with the prior year. Approximately 35 percent of this total amount, $5,440,353, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $5,440,353, or 32 percent of total General Fund expenditures.

- The City of Highland Village's total debt increased by $6,965,000 during the current fiscal year. A key factor in this increase was the issuance of $6,905,000 in general obligation bonds issued by the governmental activities and $2,715,000 in combination tax and revenue certificates of obligation bonds business-type activities. This was partially offset by the scheduled debt payments for the governmental activities and business-type activities of $1,865,000 and $790,000, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Highland Village's basic financial statements. The City of Highland Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Highland Village's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Highland Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Highland Village is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the governmental fund financial statements.

In the Statement of Net Position and the Statement of Activities, the City is divided between two kinds of activities:

> **Governmental activities**. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
>
> **Business-type activities**. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and drainage utilities are reported here.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Highland Village Community Development Fund, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Fund (a component of proprietary funds) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's budgetary comparison schedules and its progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was $54,369,023 as of September 30, 2018. Analyzing the net position of governmental and business-type activities separately, governmental activities' net position was $44,351,373 and business-type activities' net position was $10,017,650. This analysis focuses on the net position (Table 1), and the changes in net position (Table 2).

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1

CITY OF HIGHLAND VILLAGE'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 16,790,183	$ 9,757,476	$ 8,647,796	$ 4,712,949	$ 25,437,979	$ 14,470,425
Capital assets	60,193,264	62,230,638	16,180,007	16,666,353	76,373,271	78,896,991
Total assets	76,983,447	71,988,114	24,827,803	21,379,302	101,811,250	93,367,416
Deferred outflows of resources	1,249,905	2,360,723	215,301	369,313	1,465,206	2,730,036
Long-term liabilities	25,184,058	25,240,996	12,197,872	10,856,498	37,381,930	36,097,494
Other liabilities	7,593,422	3,908,092	2,667,817	1,970,292	10,261,239	5,878,384
Total liabilities	32,777,480	29,149,088	14,865,689	12,826,790	47,643,169	41,975,878
Deferred inflows of resources	1,104,499	180,799	159,765	45,479	1,264,264	226,278
Net position:						
Net investment in capital assets	40,191,697	40,453,356	6,875,079	6,603,211	47,066,776	47,056,567
Restricted	556,029	657,690	897,706	857,976	1,453,735	1,515,666
Unrestricted	3,603,647	3,907,904	2,244,865	1,421,159	5,848,512	5,329,063
Total net position	$ 44,351,373	$ 45,018,950	$ 10,017,650	$ 8,882,346	$ 54,369,023	$ 53,901,296

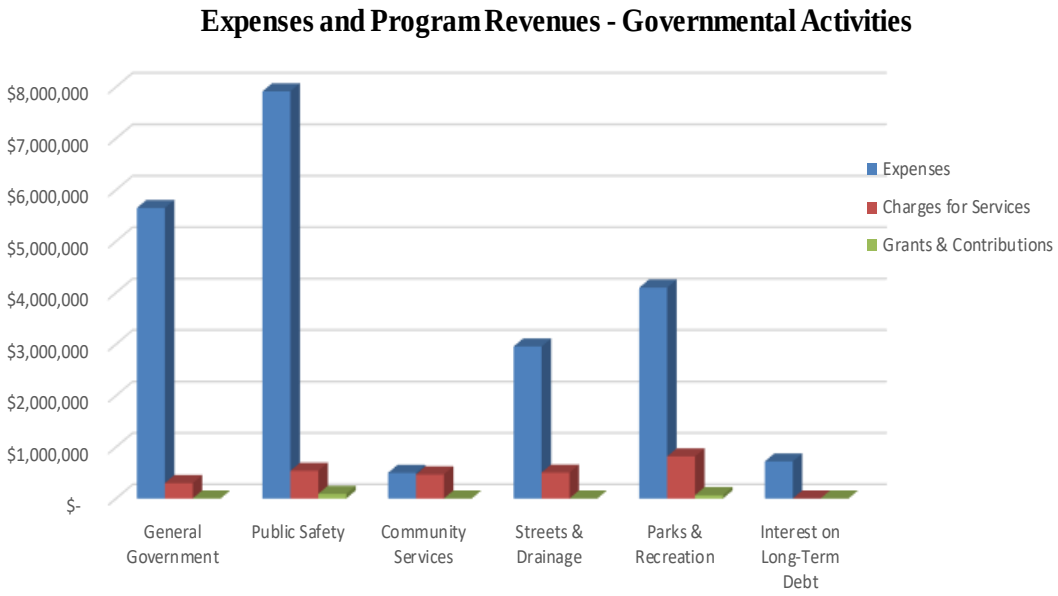
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2018. Governmental activities decreased the City's net position by $414,421 while business-type activities increased the City's net position by $1,141,304, resulting in a net $726,883 increase in total net position.

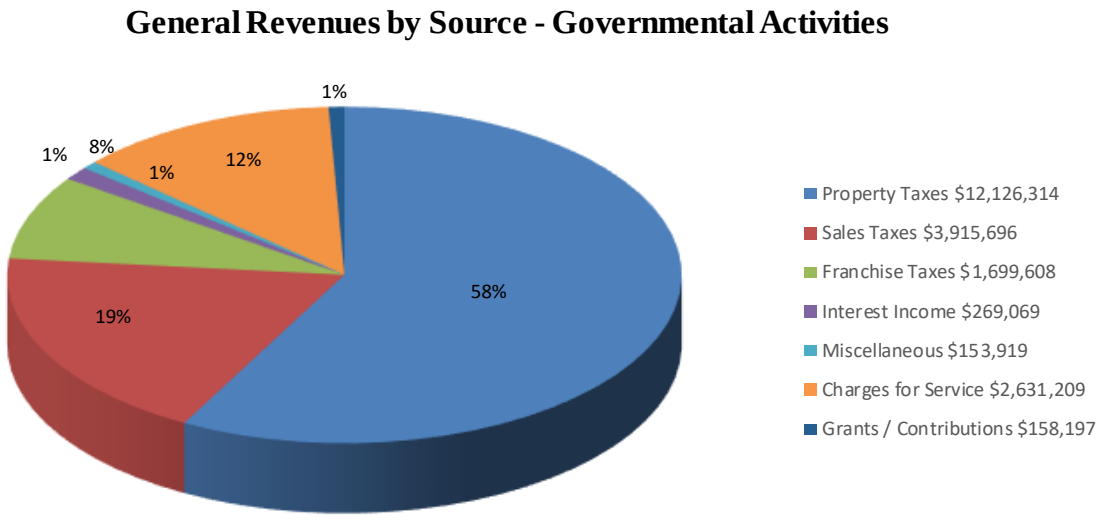
TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	$ 2,631,209	$ 2,812,221	$ 10,036,132	$ 8,224,755	$ 12,667,341	$ 11,036,976
Operating grants and contributions	92,883	126,776		-	92,883	126,776
Capital grants and contributions	65,314	235,846	686,042	141,554	751,356	377,400
General revenues:						
Property taxes	12,126,314	11,601,454		-	12,126,314	11,601,454
Sales taxes	3,915,696	3,830,637		-	3,915,696	3,830,637
Franchise fees	1,699,608	1,626,903		-	1,699,608	1,626,903
Interest income	269,069	81,049	84,696	26,664	353,765	107,713
Miscellaneous	153,919	1,398,997	-	-	153,919	1,398,997
Total revenues	20,954,012	21,713,883	10,806,870	8,392,973	31,760,882	30,106,856
Expenses:						
General government	5,648,223	4,654,057		-	5,648,223	4,654,057
Public safety	7,915,283	7,850,784		-	7,915,283	7,850,784
Community services	499,071	495,494		-	499,071	495,494
Streets and drainage	2,956,194	2,953,293		-	2,956,194	2,953,293
Parks and recreation	4,099,709	3,740,883		-	4,099,709	3,740,883
Interest on long-term debt	719,953	605,867		-	719,953	605,867
Water and wastewater	-	-	9,195,566	8,698,522	9,195,566	8,698,522
Total expenses	21,838,433	20,300,378	9,195,566	8,698,522	31,033,999	28,998,900
Increases (decreases) in net position before transfers	(884,421)	1,413,505	1,611,304	(305,549)	726,883	1,107,956
Transfers	470,000	470,000	(470,000)	(470,000)	-	-
Change in net position	(414,421)	1,883,505	1,141,304	(775,549)	726,883	1,107,956
Net position, beginning	45,018,950	43,135,445	8,876,346	9,651,895	53,895,296	52,787,340
Prior period adjustment	(253,156)	-	-	-	(253,156)	-
Net position, ending	$ 44,351,373	$ 45,018,950	$ 10,017,650	$ 8,876,346	$ 54,369,023	$ 53,895,296

Governmental activities. The City's expenses for governmental activities are detailed below – with associated program revenues.





Net position associated with governmental activities decreased $414,421 in FY 2018 – this compared to a $1,883,505 increase in net position in FY 2017.

- FY 2018 revenues decreased $759,871 from the previous year. Key elements of this decrease is as follows:

  - Property taxes increased by $524,860 during the year. Most of this increase is the product of a 6% increase in the taxable assessed value of the property.

  - Sales tax revenue increased by $85,059 reflecting consumer spending remaining steady for the City's retail developments.

  - Charges for services decreased by $181,012. Licenses and Permits revenues decreased $301,623, largely reflective of last year revenues influenced by a hail event which resulted in increased contractor registration and roofing permitting. This was partially offset by increased Parks and Recreation charges for service of $94,326, comprised of increased facility rentals at Doubletree Ranch Park and $68,400 for Community Park Fees associated with the new Ladera Development.

  - Capital grants and contributions decreased $170,532. The decrease stemmed from reduced realization of I-35 mitigation funds applied to the Corps Leased Parks as well as received FEMA funds received in FY 2017 related to flood damage to City infrastructure.

  - Interest Income increased $188,020 resulting from higher yields as well as proceeds from 2018 bond issuance.

  - Miscellaneous revenue decreased $1,245,078 from the previous year mainly from insurance recoveries received in FY 2017 from hail damage experienced on City facilities and vehicles.

- FY 2018 expenses increased $1,538,055 from FY 2017, reflecting inflation and increased service demand. The total expense amount of $21,838,433 exceeded total revenues – creating a $884,421 reduction in net position before transfers. This compares to a $618,620 increase in FY 2017.

    - General government expenses increased by $994,166 largely related to increased maintenance department expenditures of $904,843. The majority of this increase was associated with roof replacements of City facilities stemming from a citywide hail storm in 2017 totaling $814,356. Associated insurance proceeds were received in FY 2017.

    - Public safety expenses increased $64,499 partially attributed to an increase in maintenance contract associated with a new computer aided dispatch software and personnel cost related to salary increases.

    - Parks and recreation expenses increased $358,826. The increase largely related to expenditures of $115,529 for park maintenance, primarily for Copperas Branch Park clean-up and preparation after TxDOT released the park back to the city (using the park as a staging area for several years during I-35 expansion project), increased ROW contract mowing of $32,000 as well as addition of a guardrail at Doubletree Ranch Park totaling $27,000 to address safety concerns. Additionally, a new parks technician position was added.

    - Interest on long-term debt increased by $114,086 as a result of issued bonds in FY 2018.

Business-type activities: Business-type activities reflected a $1,141,304 increase in the City's net position – this compared to a $775,549 decrease in net position in FY 2017. Overall, expense and transfers exceeded revenue.

- Charges for service increased $1,811,377 from last year's total of $8,224,755. Both water sales and sewer sales increased from the previous year resulting from implemented utility rate increases.

- Capital grants and contributions increased $544,488 due to water and sewer capital improvements of $531,519 contributed by the developer of the Ladera subdivision.

- Expenses increased $497,044 from last year largely related to operations: painting of the Idlewild water tower, installation of a fence at the Highland Shores well lot, and increased lift station maintenance.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $15,395,464 an increase of $6,737,121 in comparison with the prior year. Approximately 35 percent of this total amount, or $5,440,353, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for spending because it has already been restricted - $7,581,070, committed - $263,469, assigned - $2,011,564, or non-spendable - $99,008.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $5,440,353, while total fund balance was $7,550,925. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32 percent of total General Fund expenditures, while total fund balance represents 44 percent of that same amount.

The original budget for FY 2018 reflected a $425,921 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. Revenues exceeded the budgeted amount by $167,466, while expenditures in FY 2018 were below the budgeted amount by $375,725. These variances comprised the majority of the increase in fund balance of $158,965. Key factors affecting fund balance are as follows:

- Total General Fund revenues of $16,821,604 were reduced from FY 2017 by $508,100.
    - Taxes reflected an $887,342 increase from FY 2017.
        - Property tax revenue increased $775,230 largely resulting from a 6% increase in assessed valuation.
        - Sales tax revenue increased $59,404, as well as franchise fees at $72,710.
    - Licenses, permits and fees decreased $271,040, largely due to last year reflecting a $246,304 increase from FY 2016 largely due to increased roof permits and contractor registration fees resulting from a significant hail storm that encompassed the entire city in Spring 2017.
    - Investment earnings increased $97,088 resulting from increased yields.
    - Miscellaneous revenues experienced a $1,245,078 decrease, as last year reflected receipt of $1.1M insurance proceeds related to City facilities damaged with hail storm in Spring 2017.

- Total General Fund expenditures of $17,222,334 represent an increase of $1,632,089 from the previous year. The FY 2018 actual expenditures were $375,725 below the original budgeted amount.

    - Personnel expenditures increased $521,568 from FY 2017. Salaries increased $334,865 resulting from overall salary increases of 4%. Benefits increased $203,900 largely related to higher premiums for medical insurance coverage.

    - Services / Supplies expenditures increased by $1,033,357.

        - Street Maintenance increased $55,215 from FY 2017.

        - Buildings and Grounds Maintenance increased $842,192 resulting from replacement of numerous City facilities roofs prompted by the citywide hail storm in 2017. Insurance proceeds were received in FY 2017, with repairs largely completed in FY 2018.

    - Capital Outlay expenditures increased by $77,164 in FY 2018, primarily related to Data Storage devices ($163,927) and an increase in Parks capital ($120,137), partially offset by a decrease in Fire capital of $163,734 (resulting from the purchase of an ambulance in FY 2017).

- Total Other Financing Sources (Uses) reflected a net total of $559,695 – a $363,419 increase from FY 2017. Base elements of this total include transfers-in of $470,000, $28,000, and $16,000 respectively, from the Utility Fund, Highland Village Economic Development Corporation and Drainage Utility Fund for support functions provided by the General Fund, as well as a transfer-in of $16,894 from the Public Safety Fund related to Child Safety Fees,. Also included is a $44,801 deferred revenue from TIFMAS related to State fire assistance provided offset personnel cost paid from the General Fund. These transfers-in were partially offset by transfers to the Drainage Utility Fund of $16,000 for the City's drainage fees.

The Debt Service Fund has a total fund balance of $159,489, a slight decrease of $1,691, all of which is restricted for the payment of debt service.

The Highland Village Community Development Fund has a total fund balance of $30,521, a $76,433 decrease from FY 2017. In FY 2014, the City issued $6.7M of debt primarily earmarked for the construction of Doubletree Ranch Park. The Park is now complete, with the final residual expenditures a primary reason for the decrease in FY 2018.

The Capital Projects Fund ended the year with a $6,865,552 fund balance, increased $6,819,890 from FY 2017 related to a $6.905M bond issuance for parks and streets projects.

Remaining governmental funds reported a combined ending fund balance of $788,977, reflecting a decrease of $163,610.

    - Revenues for these funds reflected a decrease of $194,931 from the previous year, largely related to last year accounting for a received FEMA reimbursement for repairs associated with flooding in the Utility Drainage Fund, as well as a decrease in recognized deferred

revenue in the Corps Leased Parks Fund stemming from I-35 mitigation monies received from TxDOT in FY 2013.

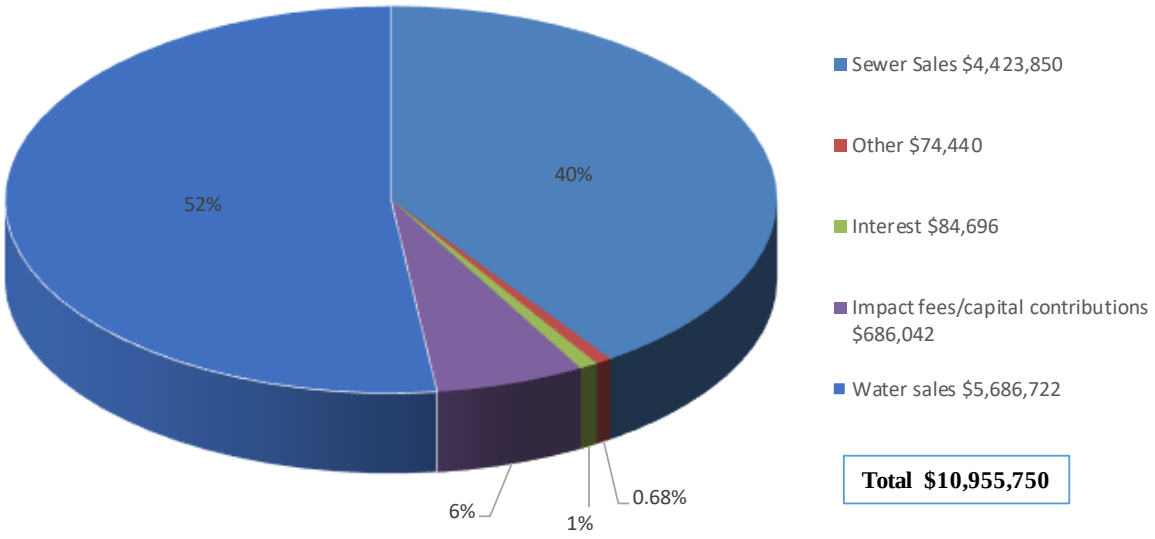
- Combined expenditures decreased $452,605. The decrease is primarily related to a reduction in the Utility Drainage Fund FY 2017 of $513,888, resulting from FY 2017 capital expenditures. This was largely offset by an increase in the Corps Leased Parks Fund of $429,834, primarily related to expenditures associated with rehab of restroom facilities at the park. Additionally, Capital Projects Fund was included in this category last year – with $215,683 expenditures, however shown separately in FY 2018. And Park Development Fee Fund had $104,209 expenditures in FY 2017 related to construction of a dog park, not repeated in FY 2018.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net position in the Enterprise Fund totaled $10,017,650 at the end of the fiscal year 2018, an increase of $1,141,304, or 13.0%. Included in net position is $897,706 restricted for capital projects and unrestricted net position of $2,244,865. The remaining net position balance of $6,875,079 consists of net investments in capital assets.

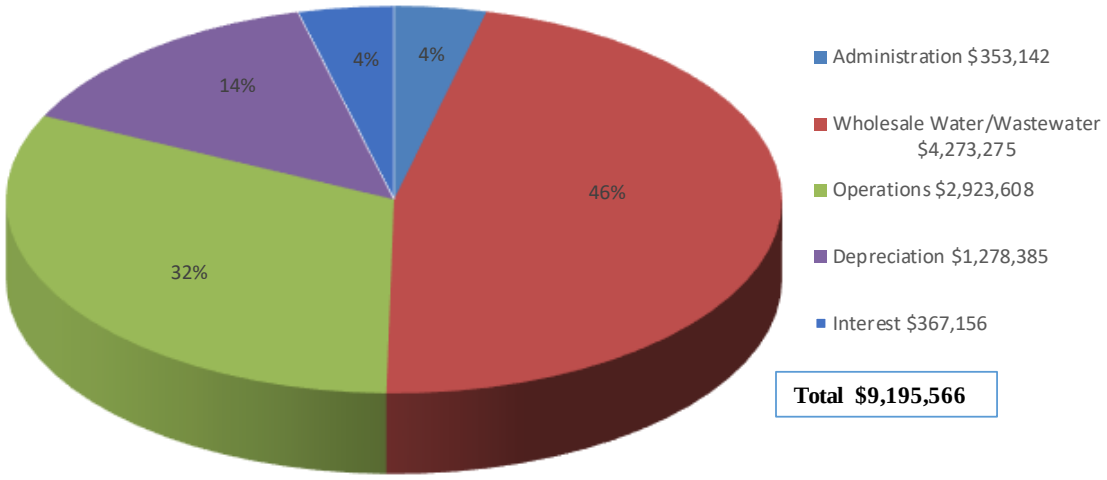
- Utility operating revenues of $10,036,132 reflected an increase of $1,811,377 or 22%, in FY 2018, largely reflective of an implemented utility rate increase.
  - Water sales increased $1,238,316.
  - Sewer sales increased $653,516.

Total Revenues - Business-Type Activities



- Utility operating expenses of $8,828,410 increased $509,903, or 6.1%.
    - Administration expenses decreased $1,462 in FY 2018.
    - Maintenance and Operations increased $515,148.
        - Wholesale water / sewer treatment cost decreased $128,641.
        - Personnel expenses increased $11,821.
        - Services and supplies increased $501,684 primarily due to painting of the Idlewild water tower, installation of a fence at the Highland Shores well lot, and increased lift station maintenance.
    - Depreciation decreased in FY 2018 by $6,707.

Total Expenses - Business-Type Activities



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2017-2018, the City Council of the City of Highland Village amended the budget for the General Fund on one occasion, resulting in an increase in budgeted expenditures of $703,000. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

Staff reviewed each supplemental appropriation throughout the year and determined that revenues provided sufficient reserves to recommend their increase. All budget amendments presented had either offsetting reductions or sufficient available fund balances reserves.

For fiscal year 2017-2018, actual expenditures on a budgetary basis were $17,222,334. This total was less than the original budgeted expenditures of $17,598,061 by $375,727, and $1,128,727 below the revised budget. The supplemental requests approved during the year are summarized following:

- Personnel expenditures decreased by a total of $35,000 which consists of increases in City Manager ($20,000), Finance ($35,000), City Secretary ($20,000), Fire ($50,000), Community Services ($55,000), Information Services ($20,000), Maintenance ($5,000), and Streets ($20,000) Departments, offset by decreases in the Human Resources ($110,000), and Police ($150,000) Departments.

- Services and supplies expenditures increased in total by $460,000 which consists of the following amendments:

    - City Manager - Decreased $575,000 mostly related to reallocation of budgeted economic development funds not utilized.

    - Fire – Increased $15,000 related to uniform purchases.

    - Community Services – Increased $5,000 related to supplies purchased.

    - Streets – Increased $85,000 for street overlay project carried over from FY 2017.

    - Maintenance - Increased $900,000 related to repairs of City facilities (roofs) damaged by hail storm.

    - Parks – Increased $30,000 related to Sunset Park design and increase in ROW mowing contract

Increased Capital Outlay in total by $328,000 which consists of the following amendments:

- Information services – Increased $110,000 related to purchase of a network storage device.

- Streets – Increased $3,000 related to purchase of a utility vehicle slightly exceeding budget.

- Parks – Increased $215,000 related to purchase of Double Tree Ranch shade covers and playground equipment redirected from economic development funds.

Actual revenue on a budgetary basis was $16,821,604 compared to the original budget of $16,654,138, providing a positive variance of $167,466. Actual tax revenues were $82,575 less than the budget amount. This was offset by small positive variances in the other revenue categories, namely collected licenses, permits and fees ($44,887) and charges for service ($36,929).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2018, amounted to $76,373,271 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges, water and sewer lines, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

Project	Amount
ISC CAD/RMS Software	$ 341,095
Ladera Waterline Improvements	302,937
Ladera Sewer Improvements	228,582
Pilot Knoll Overnight Restrooms	214,780
2018 John Deere 410L Backhoe	131,413
Police Department Parking Canopy	82,900
Roover X Sewer Tractor Camera	69,756
Light Visors and Control Link Management	57,120
Chinn Chapel to Castlewood Waterline	57,000
Storm Siren Upgrade	49,642
Nimble 90TB Storage Expansion Shelf	49,510
Nexan Beast 120TBs	47,348
Core Servers	42,634
Double Drum Roller, Utility Trailer	40,328
2017 Police Interceptor	38,329
2017 Ford Superduty	38,011
GM7200 No Deck	32,290
Envirosight Roover X Crawler Extension	24,695
Laser Grader	24,021

TABLE 3

CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	$ 17,183,848	$ 17,183,848	$ 75,713	$ 75,713	$ 17,259,561	$ 17,259,561
Land improvements	15,579,241	16,433,024	-	-	15,579,241	16,433,024
Buildings and improvements	6,826,382	7,358,090	933,706	1,005,628	7,760,088	8,363,718
Distribution system	-	-	14,516,766	15,027,667	14,516,766	15,027,667
Equipment and machinery	2,691,100	2,727,350	547,884	448,726	3,238,984	3,176,076
Infrastructure	17,156,417	18,143,100	9,832	10,448	17,166,249	18,153,548
Intangibles	280,229	6,664	4,409	8,828	284,638	15,492
Construction in progress	476,047	378,562	91,697	89,343	567,744	467,905
Total capital assets	$ 60,193,264	$ 62,230,638	$ 16,180,007	$ 16,666,353	$ 76,373,271	$ 78,896,991

Additional information on the City's capital assets can be found in Note D on pages 48-49 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of $39,325,000. Of this amount, $26,560,000 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4

CITY OF HIGHLAND VILLAGE'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligations	$ 16,160,000	$ 10,700,000	$ 5,725,000	$ 6,300,000	$ 21,885,000	$ 17,000,000
Combination tax and revenue certificates of obligation	9,255,000	9,400,000	7,040,000	4,540,000	16,295,000	13,940,000
Tax notes	1,145,000	1,420,000	-	-	1,145,000	1,420,000
Total outstanding debt	$ 26,560,000	$ 21,520,000	$ 12,765,000	$ 10,840,000	$ 39,325,000	$ 32,360,000

The City's total debt increased by $6,965,000 during the current fiscal year. A key factor in this decrease was the scheduled debt payments of $2,655,000. The City also issued $6,905,000 in general obligation bonds and $2,715,000 of combination tax and revenue certificates of obligation.

The City's tax supported debt is rated "AAA" by Standards & Poor's. The current ratio of tax-supported debt to assessed value of all taxable property is 1.2 percent.

Additional information on the City's outstanding debt can be found in Note F on page 50 - 52 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2018-2019 budget was adopted by ordinance on September 25, 2018. The following summarizes the significant factors that were considered in adopting the budget.

- General fund revenues are budgeted to increase by 3.2% over FY 2018 original budget with property taxes making up 63% of the general fund budgeted revenues. The property tax taxable values increased by 5.6%. The Council approved a $0.005 per $100 valuation decrease in the property tax rate reducing the tax rate to $0.56302, with $0.479787 apportioned to maintenance and operation expenses and $0.083233 apportioned to pay interest and principle maturities on outstanding debt. Sales tax represents 16% of the budget general fund revenues. Sales tax collections are expected to increase 4.2% over the FY 2018 budgeted amount.

- General fund expenditures are budgeted to increase by 6.9% over the FY 2018 original budget.

    - Personnel expenditures represent 66% of budgeted general fund expenditures. The proposed total increase in personnel is $512,141 or 4.3% over FY 2018. Of this increase, $147,593 is related to addition of two positions: a school resource officer and parks applicator. The remaining $364,548 increase is primarily related to proposed salary increases. Health insurance is expected to increase $57,424, however offset by reduction in base salaries from expected retirement and turnover of tenured positions. Pension benefit contributions remained flat as a result of contribution rate decrease from 13.71% in FY 2018 to 13.50% in FY 2019.

    - Supplies and services expenditures represent 25% of the budgeted general fund expenditures. Expenditures are expected to decrease by $299,408 or 5.9% from FY 2018. This decrease is reflective of $500,000 budgeted in FY 2018 for economic development incentives – not repeated in FY 2019. In addition, capital lease payments are decreased by $130,000. Partially offsetting these reductions are an increase in data processing ($97,100), increase recreation programming ($75,404), and increased supplies / equipment of $125,417.

    - Capital outlay expenditures represent 8.4% of the budgeted general fund expenditures. Capital expenditures are budgeted at $1,584,000, a $1,009,291 or 175% increase from FY 2018 original budget. With available reserves, an outright purchase of a fire engine and ambulance was budgeted at $1.1M rather than financing as a lease / purchase.

- The water and sewer rates structure and rates were updated in May 2017. The base level amounts were increased and a flat rate per gallon was implemented (changing from previous tiered rate structure) for usage up to 50,000 gallons of consumption. A more significant rate increase is charged for usage above 50,000 gallons. As the new rate structure provided revenues as anticipated in the rate model, no change in rates is proposed for FY 2019.

- The Council approved the issuance of general obligation bonds in the amount of $6,915,000 for the voter approved propositions for street improvement projects and parks and recreation projects. Additionally, Council approved the issuance of certificates of obligations in the amount of $2,715,000 for utility capital projects.

Information on subsequent events is detailed in Note J on pages 61 - 62 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

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BASIC
FINANCIAL STATEMENTS

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 15,316,884	$ 1,645,812	$ 16,962,696
Receivables (net of allowances for uncollectibles)			
Taxes	1,222,811	-	1,222,811
Accounts	106,499	1,534,548	1,641,047
Intergovernmental	51,523	-	51,523
Other	46,897	7,602	54,499
Inventories and prepaid items	109,118	264,283	373,401
Internal balances	(63,549)	63,549	-
Restricted cash and investments:			
Reserved bond debt service	-	455,451	455,451
Capital improvements	-	3,613,455	3,613,455
Construction	-	897,706	897,706
Customer deposits	-	165,390	165,390
Capital assets:			
Nondepreciable	17,659,895	167,410	17,827,305
Depreciable, net	42,533,369	16,012,597	58,545,966
Total capital assets	60,193,264	16,180,007	76,373,271
Total assets	76,983,447	24,827,803	101,811,250
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	246,484	88,723	335,207
Deferred outflows related to pensions	979,972	123,600	1,103,572
Deferred outflows related to post employment benefits	23,449	2,978	26,427
Total deferred outflows of resources	1,249,905	215,301	1,465,206

The accompanying notes are an integral part of these financial statements.

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable	794,558	977,472	1,772,030
Accrued liabilities	257,346	70,085	327,431
Unearned revenue	144,665	-	144,665
Accrued interest	196,782	90,478	287,260
Customer deposits	-	165,390	165,390
Noncurrent liabilities:			
Due within one year			
Current portion of long-term obligations	2,905,386	948,586	3,853,972
Current portion of total OPEB liability	1,170	225	1,395
Due in more than one year			
Noncurrent portion of long-term obligations	25,184,058	12,197,872	37,381,930
Net pension liability	2,991,507	377,307	3,368,814
Total OPEB liability	302,008	38,274	340,282
Total liabilities	32,777,480	14,865,689	47,643,169
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	-	20,459	20,459
Deferred inflows related to pensions	1,104,499	139,306	1,243,805
Total deferred inflows of resources	1,104,499	159,765	1,264,264
NET POSITION			
Net investment in capital assets	40,191,697	6,875,079	47,066,776
Restricted for:			
Community development	30,521	-	30,521
Public safety	71,002	-	71,002
Utility drainage	340,814	-	340,814
Public broadcasting	113,692	-	113,692
Capital projects	-	897,706	897,706
Unrestricted	3,603,647	2,244,865	5,848,512
Total net position	$ 44,351,373	$ 10,017,650	$ 54,369,023

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 5,648,223	$ 300,258	$ 1,800	$ -
Public safety	7,915,283	539,212	91,083	-
Community services	499,071	468,954	-	-
Streets and drainage	2,956,194	503,839	-	-
Parks and recreation	4,099,709	818,946	-	65,314
Interest on long-term debt	719,953	-	-	-
Total governmental activities	21,838,433	2,631,209	92,883	65,314
Business-type activities:				
Water and wastewater	9,195,566	10,036,132	-	686,042
Total business-type activities	9,195,566	10,036,132	-	686,042
Total primary government	$ 31,033,999	$ 12,667,341	$ 92,883	$ 751,356

General revenues:
- Taxes:
  - Property taxes, levied for general purposes
  - Property taxes, levied for debt service
  - Franchise
  - Sales
- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$(5,346,165)	$ -	$(5,346,165)
(7,284,988)	-	(7,284,988)
(30,117)	-	(30,117)
(2,452,355)	-	(2,452,355)
(3,215,449)	-	(3,215,449)
(719,953)	-	(719,953)
(19,049,027)	-	(19,049,027)
-	1,526,608	1,526,608
-	1,526,608	1,526,608
(19,049,027)	1,526,608	(17,522,419)
10,612,446	-	10,612,446
1,513,868	-	1,513,868
1,699,608	-	1,699,608
3,915,696	-	3,915,696
269,069	84,696	353,765
153,919	-	153,919
470,000	(470,000)	-
18,634,606	(385,304)	18,249,302
(414,421)	1,141,304	726,883
45,018,950	8,876,346	53,895,296
(253,156)	-	(253,156)
$ 44,351,373	$ 10,017,650	$ 54,369,023

CITY OF HIGHLAND VILLAGE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General	Debt Service	Community Development Corporation
ASSETS			
Cash and investments	$ 7,318,528	$ 159,488	$ -
Receivables, net			
Taxes	1,002,646	16,248	203,917
Accounts	105,102	-	1,397
Intergovernmental	-	-	-
Other	13,845	-	-
Due from other funds	84,894	-	-
Prepaid items	99,008	-	3,687
Total assets	8,624,023	175,736	209,001
LIABILITIES			
Accounts payable	602,375	-	20,854
Accrued liabilities	232,426	-	11,516
Due to other funds	-	-	134,065
Unearned revenue	81,879	-	12,045
Total liabilities	916,680	-	178,480
DEFERRED INFLOWS OF RESOURCES			
Unavailable:			
Property taxes	86,686	16,247	-
Municipal court fines	40,968	-	-
Ambulance	28,764	-	-
Grants	-	-	-
Total deferred inflows of resources	156,418	16,247	-
FUND BALANCES			
Nonspendable - prepaid items	99,008	-	-
Restricted for:			
Debt service	-	159,489	-
Public parks, recreation, and related projects	-	-	30,521
Public safety - law enforcement operations	-	-	-
Utility drainage operations	-	-	-
Capital projects	-	-	-
Public broadcasting	-	-	-
Committed - park development and maintenance	-	-	-
Assigned for:			
Subsequent year's budget	1,169,913	-	-
City manager- contingency fund	19,065	-	-
Finance - professional services	35,000	-	-
Information services - professional services	141,412	-	-
Public safety - police - services and supplies	10,330	-	-
Public safety - fire - fire truck payment	133,197	-	-
Streets - maintenance and professional services	50,223	-	-
Maintenance - supplies and roof replacement	383,229	-	-
Parks - maintenance and supplies	69,195	-	-
Unassigned	5,440,353	-	-
Total fund balances	7,550,925	159,489	30,521
Total liabilities, deferred inflows of resources, and fund balances	$ 8,624,023	$ 175,736	$ 209,001

Capital Projects	Other Governmental	Total Governmental Funds
$ 6,971,062	$ 867,806	$ 15,316,884
-	-	1,222,811
-	-	106,499
-	51,523	51,523
691	32,361	46,897
-	-	84,894
-	6,423	109,118
6,971,753	958,113	16,938,626
106,201	65,128	794,558
-	13,404	257,346
-	14,378	148,443
-	50,741	144,665
106,201	143,651	1,345,012
-	-	102,933
-	-	40,968
-	-	28,764
-	25,485	25,485
-	25,485	198,150
-	-	99,008
-	-	159,489
-	-	30,521
-	71,002	71,002
-	340,814	340,814
6,865,552	-	6,865,552
-	113,692	113,692
-	263,469	263,469
-	-	1,169,913
	-	19,065
-	-	35,000
-	-	141,412
-	-	10,330
-	-	133,197
-	-	50,223
-	-	383,229
-	-	69,195
-	-	5,440,353
6,865,552	788,977	15,395,464
$ 6,971,753	$ 958,113	$ 16,938,626

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CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

Total fund balance, governmental funds		$ 15,395,464
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		60,193,264
Uncollected revenues are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		
Property taxes	$ 102,933	
Ambulance fees	28,764	
Court fines	40,968	
Grant revenues	25,485	
		198,150
Long-term liabilities, including bonds and tax notes payable, are not due and payable in the current period and are therefore not reported in the funds. Also, the loss on refunding of bonds and premium on issuance of bonds are not included in the funds. The details of these differences are as follows:		
Bonds payable	(26,560,000)	
Deferred amount on refunding	246,484	
Issuance premium	(334,555)	
Accrued interest	(196,782)	
Capital lease obligation	(130,203)	
Compensated absences	(1,064,686)	
		(28,039,742)
Included in the items related to long-term liabilities is the recognition of the City's net pension liability and deferred outflow and inflow of resources related to pensions.		
Deferred outflow related to pensions	979,972	
Deferred inflow related to pensions	(1,104,499)	
Deferred outlows related to post employment benefits	23,449	
Total OPEB liability	(303,178)	
Net pension liability	(2,991,507)	
		(3,395,763)
Net position of governmental activities in the statement of net position		$ 44,351,373

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General	Debt Service	Community Development Corporation
REVENUES			
Taxes	$ 14,935,246	$ 1,510,842	$ 1,268,252
Fines and forfeitures	109,420	-	-
Licenses, permits and fees	948,627	-	47,597
Intergovernmental	9,300	-	-
Charges for services	493,590	-	-
Investment earnings	171,502	5,197	492
Miscellaneous	153,919	-	-
Total revenues	16,821,604	1,516,039	1,316,341
EXPENDITURES			
Current:			
General government:			
City manager	557,670	-	-
Finance	1,539,028	-	-
Human resources	397,663	-	-
City secretary	320,515	-	-
Maintenance	1,686,574	-	-
Information technology	945,495	-	-
Public safety:			
Police	4,434,546	-	-
Fire	2,719,146	-	-
Community services	481,472	-	-
Streets and drainage	1,290,484	-	-
Parks and recreation	1,922,276	-	494,089
Debt service:			
Principal	253,875	1,865,000	-
Interest and other charges	8,392	523,415	-
Capital outlay	665,198	-	-
Total expenditures	17,222,334	2,388,415	494,089
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(400,730)	(872,376)	822,252
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	-	-
Premium on issuance of bonds	-	-	-
Transfers in	575,695	870,685	-
Transfers out	(16,000)	-	(898,685)
Total other financing sources and uses	559,695	870,685	(898,685)
NET CHANGE IN FUND BALANCES	158,965	(1,691)	(76,433)
FUND BALANCES, BEGINNING	7,391,960	161,180	106,954
FUND BALANCES, ENDING	$ 7,550,925	$ 159,489	$ 30,521

Capital Projects	Other Governmental	Total Governmental Funds
$ -	$ -	$ 17,714,340
-	-	109,420
-	1,031,623	2,027,847
-	130,130	139,430
-	-	493,590
87,441	4,437	269,069
-	-	153,919
87,441	1,166,190	20,907,615
-	-	557,670
-	9,784	1,548,812
-	-	397,663
-	-	320,515
-	-	1,686,574
-	-	945,495
-	26,576	4,461,122
-	1,378	2,720,524
-	-	481,472
-	448,609	1,739,093
-	415,122	2,831,487
-	-	2,118,875
70,906	-	602,713
275,233	366,636	1,307,067
346,139	1,268,105	21,719,082
(258,698)	(101,915)	(811,467)
6,905,000	-	6,905,000
173,588	-	173,588
-	16,000	1,462,380
-	(77,695)	(992,380)
7,078,588	(61,695)	7,548,588
6,819,890	(163,610)	6,737,121
45,662	952,587	8,658,343
$ 6,865,552	$ 788,977	$ 15,395,464

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CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net change in fund balances - total governmental funds:		$ 6,737,121
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	1,307,067	
Depreciation expense	(3,344,440)	
		(2,037,373)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of these differences are as follows:		
Property taxes	$ 27,278	
Ambulance fees	3,642	
Court fines	(3,290)	
Grants	18,767	
		46,397
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while issuing debt increases long-term liabilities in the statement of net position. The repayment of the principal portion of bonds, capital leases and tax notes is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Payments on bonds	1,590,000	
Payments on capital lease	253,875	
Payment on tax notes	275,000	
Premium on issuance of debt	(173,588)	
Issuance of bonds	(6,905,000)	
		(4,959,713)
Certain pension and other postemployment benefits expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource outflows and inflows related to the pension and other post employment benefits liability were amortized.		(47,858)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(35,755)	
Accrued interest	(121,623)	
Amortization of deferred loss of refunding bonds	(35,814)	
Amortization of premium on bond issuances	40,197	
		(152,995)
Change in net position of governmental activities		$(414,421)

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2018

(With Comparative Totals as of September 30, 2017)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,645,812	$ 220,327
Accounts receivable, net	1,534,548	1,529,725
Other receivables	7,602	37,409
Inventories	241,134	222,368
Prepaid items	23,149	4,565
Due from other funds	63,549	63,549
Restricted cash and investments:		
Reserve bond debt service	455,451	666,563
Capital improvements	3,613,455	838,629
Construction	897,706	851,976
Customer deposits	165,390	277,838
Total current assets	8,647,796	4,712,949
Non-current assets:		
Capital assets:		
Nondepreciable capital assets	167,410	165,056
Depreciable capital assets, net of accumulated depreciation	16,012,597	16,501,297
Total capital assets	16,180,007	16,666,353
Total non-current assets	16,180,007	16,666,353
Total assets	24,827,803	21,379,302
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	88,723	104,266
Deferred outflows related to pensions	123,600	265,047
Deferred outflows related to other postemployment benefits	2,978	-
Total deferred outflows of resources	215,301	369,313

	2018	2017
LIABILITIES		
Current liabilities:		
Accounts payable	977,472	671,662
Accrued expenses	70,085	69,386
Accrued interest	90,478	37,080
Customer deposits	165,390	277,838
Current portion of long-term obligations	948,586	914,326
Total OPEB liability	225	-
Total current liabilities	2,252,236	1,970,292
Noncurrent liabilities:		
Net pension liability	377,307	636,641
Total OPEB liability	38,274	-
Noncurrent portion of long-term obligations	12,197,872	10,219,857
Total non-current liabilities	12,613,453	10,856,498
Total liabilities	14,865,689	12,826,790
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	20,459	22,423
Deferred inflows related to pensions	139,306	23,056
Total deferred inflows of resources	159,765	45,479
NET POSITION		
Net investment in capital assets	6,875,079	6,603,211
Restricted for capital projects	897,706	851,976
Unrestricted	2,244,865	1,421,159
Total net position	$ 10,017,650	$ 8,876,346

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals For the Year Ended September 30, 2017)

	2018	2017
REVENUES		
Charges for services	$ 10,036,132	$ 8,224,755
Total operating revenues	10,036,132	8,224,755
OPERATING EXPENSES		
Administration	353,142	351,680
Maintenance and operations	7,196,883	6,681,735
Depreciation	1,278,385	1,285,092
Total operating expenses	8,828,410	8,318,507
OPERATING INCOME (LOSS)	1,207,722	(93,752)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	84,696	26,664
Interest expense	(367,156)	(380,015)
Total non-operating revenues (expenses)	(282,460)	(353,351)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	925,262	(447,103)
CAPITAL CONTRIBUTIONS	686,042	141,554
TRANSFERS OUT	(470,000)	(470,000)
CHANGE IN NET POSITION	1,141,304	(775,549)
TOTAL NET POSITION, BEGINNING	8,876,346	9,651,895
TOTAL NET POSITION, ENDING	$ 10,017,650	$ 8,876,346

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

(With Comparative Totals For the Year Ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 9,948,668	$ 8,154,994
Cash paid to suppliers for goods and services	(5,835,593)	(5,400,784)
Cash paid to employees for services	(1,407,754)	(1,361,275)
Net cash provided by operating activities	2,705,321	1,392,935
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash paid to other funds	-	(63,549)
Transfers to other funds	(470,000)	(470,000)
Net cash used for noncapital financing activities	(470,000)	(533,549)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,825,618	-
Acquisition of capital assets	(792,039)	(332,298)
Principal paid on bonds	(790,000)	(905,000)
Capital contributions	686,042	141,554
Interest and other charges paid on debt	(327,157)	(340,707)
Net cash used by capital and related financing activities	1,602,464	(1,436,451)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	84,696	26,664
Net cash provided by investing activities	84,696	26,664
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,922,481	(550,401)
CASH AND CASH EQUIVALENTS, BEGINNING	2,855,333	3,405,734
CASH AND CASH EQUIVALENTS, ENDING (Including $5,132,002 and $2,635,006 reported as restricted cash and investments)	$ 6,777,814	$ 2,855,333

The accompanying notes are an integral part of these financial statements.

	2018	2017
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 1,207,722	$(93,752)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,278,385	1,285,092
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Decrease (increase) in assets and deferred outflows:		
Customer receivable	(4,823)	(53,854)
Other receivables	29,807	(31,927)
Inventories	(18,766)	(5,012)
Prepaid and other assets	(18,584)	-
Deferred outflow related to pensions	141,447	39,676
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	305,810	191,671
Accrued liabilities	699	(96)
Customer deposits	(112,448)	16,020
Compensated absences	3,635	13,413
Net pension liability	(220,835)	28,645
Deferred outflows related to OPEB	(2,978)	
Deferred inflow related to pensions	116,250	3,059
Net cash provided by operating activities	$ 2,705,321	$ 1,392,935
Schedule of non-cash capital and related financing activities:		
Donation of capital assets	$ 531,519	$ -
Payment to escrow agent for defeasance of bonds	-	3,995,000
Refunding bonds issued	-	4,050,000

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985 and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Comprehensive Annual Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. Four out of seven board members are on City Council. In the event of dissolution title of all the assets transfer to the City. The operational responsibility of the Community Development Corporation is managed essentially the same manner as other City programs and activities. The Community Development Corporation is reported as a Special Revenue Fund. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund – is utilized to account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.

Community Development Corporation – is utilized to account for the use of 4B sales tax revenues that must be used in compliance with statutory restrictions set forth by the state legislature.

Capital Projects Fund – is used typically funded from serial bond proceeds, legally authorized debt instruments issued for specific projects, or funds from settlements or assessments that correspond to capital projects.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund – is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Deferred Inflows/Outflows of Resources, Liabilities, and Net Position or Fund Balance

Cash and Investments

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Investments in government pools are recorded at amortized cost. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current traction between willing parties.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost threshold by asset class and an estimated useful life in excess of four years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives and capitalization thresholds of capital asset classes are as follows:

Capital Asset Class	Capitalization Threshold	Useful Life (Years)
Land	$ 50,000	Indefinite
Infrastructure	250,000	20
Buildings and Improvements	100,000	30
Land Improvements	50,000	20
Machinery and equipment	5,000	5 - 10
Intangibles	5,000	5 - 10

Accrued Vacation

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days. Obligations under compensated absence arrangements are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City utilizes the last-in first-out method of recognizing the use of compensated absences. Thus, unless it is anticipated that compensated absences of governmental fund types will be used/paid in excess of a normal year's accumulation, no amount is classified as current.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits

Supplemental Death Benefit. For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Pension and other post-employment benefit contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Changes in economic and demographic actuarial assumptions or of other inputs included in determining the pension and other post-employment benefit liability – these effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active or inactive employees).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, municipal court fines, ambulance, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City also has two types of this item that is recorded under the full accrual basis of accounting as followed:

- It is the difference in expected and actual pension experience and a deferred gain on bond refunding.

- The pension difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date and the deferred gain is amortized over the shorter of the life of the refunded or refunding debt.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by Ordinance of the City Council, the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council. The City does not have assigned fund balance at year-end.

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of debt related to capital assets and accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data and Reclassifications

Comparative total data for the prior year is presented only for the Enterprise Fund in the fund financial statements in order to provide an understanding of changes in the financial position and operations of this fund. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended.

Investments held at year-end are as follows:

	Carrying Value	Weighted Average Maturity (Days)
TexPool	$ 1,853,262	28
TexStar	1,211,307	32
Total investments	$ 3,064,569	

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), provide for the creation of public funds investment pools, such as Texas Short-term Reserve Fund ("TexStar"), and TexPool, through which political subdivisions and other entities may invest public funds.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

TexPool and TexStar have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Both TexPool and TexStar are rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times. The City's cash deposits in the bank on September 30, 2018, were covered by federal depository insurance or by collateral held by the City's agent in the City's name.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	General	Debt Service	Community Development Corporation	Capital Projects	Nonmajor Governmental	Enterprise	Total
Receivables:							
Taxes	$ 1,002,646	$ 16,248	$ 203,917	$ -	$ -	$ -	$ 1,222,811
Accounts	597,778	-	1,397	-	-	1,490,570	2,089,745
Unbilled	-	-	-	-	-	409,235	409,235
Other	13,845	-	-	691	32,361	7,602	54,499
Intergovernmental	-	-	-	-	51,523	-	51,523
Gross receivables	1,614,269	16,248	205,314	691	83,884	1,907,407	3,827,813
Less: allowance for uncollectibles	492,676	-	-	-	-	365,257	857,933
Net total receivables	$ 1,121,593	$ 16,248	$ 205,314	$ 691	$ 83,884	$ 1,542,150	$ 2,969,880

At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

General fund:	
Grants	$ 29,809
Park fees	1,744
Service	50,326
Total general fund	81,879
Community development corporation:	
Park fees	12,045
Total community development corporation	12,045
Nonmajor governmental fund:	
Parks fees	50,741
Total nonmajor governmental fund	50,741
Total governmental funds	$ 144,665

C. Interfund Balances and Transfers

Interfund balances as of year-end were as follows:

Receivable Fund	Payalbe Fund	Amounts
General Fund	Community Development Corporation	$ 70,516
General Fund	Other Governmental	14,378
Water and Wastewater	Community Development Corporation	63,549

Balances resulted from the lag between the dates that payments for expenditures are made and the date an agency reimbursed the City.

The following is a summary of transfers:

	Transfers in			
Transfers out	General	Debt Service	Nonmajor Governmental	Total
General	$ -	$ -	$ 16,000	$ 16,000
Community Development Corporation	28,000	870,685	-	898,685
Nonmajor governmental	77,695	-	-	77,695
Water and wastewater	470,000	-	-	470,000
	$ 575,695	$ 870,685	$ 16,000	$ 1,462,380

The purpose of transfers is as follows:

- The transfers to non-major governmental funds was for a drainage fee associated with imperious square footage of public buildings.
- The transfer from the Community Development Corporation Fund to the Debt Service Fund is a for debt service payments made on behalf of the HVCDC.
- The transfer from Community Development Corporation Fund to the General Fund is for support services.
- The transfer from the Water and Wastewater Fund to the General Fund represents a payment in lieu of taxes.
- The transfer between non-major funds was for a reimbursement for support services DCCSF and TDEM reimbursements.

D. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 17,183,848	$ -	$ -	$ 17,183,848
Construction in progress	378,563	736,630	(639,146)	476,047
Total assets not being depreciated	17,562,411	736,630	(639,146)	17,659,895
Capital assets, being depreciated:				
Land improvements	23,894,183	87,690	83,270	24,065,143
Buildings and improvements	15,614,865	7,095	214,780	15,836,740
Equipment	8,745,141	475,652	(234,070)	8,986,723
Infrastructure	41,904,326	-	-	41,904,326
Intangibles	196,594	-	341,096	537,690
Total capital assets being depreciated	90,355,109	570,437	405,076	91,330,622
Less accumulated depreciation:				
Land improvements	7,461,160	1,024,742	-	8,485,902
Buildings and improvements	8,256,778	753,580	-	9,010,358
Equipment	6,017,792	511,901	(234,070)	6,295,623
Infrastructure	23,761,225	986,684	-	24,747,909
Intangibles	189,927	67,534	-	257,461
Total accumulated depreciation	45,686,882	3,344,441	(234,070)	48,797,253
Total capital assets being depreciated, net	44,668,227	(2,774,004)	639,146	42,533,369
Governmental activities capital assets, net	$ 62,230,638	$(2,037,374)	$ -	$ 60,193,264

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 75,713	$ -	$ -	$ 75,713
Construction in progress	89,343	59,354	(57,000)	91,697
Total assets not being depreciated	165,056	59,354	(57,000)	167,410
Capital assets, being depreciated:				
Buildings	1,469,616	-	-	1,469,616
Improvements other than buildings	34,213,258	531,519	57,000	34,801,777
Equipment	1,780,079	201,169	-	1,981,248
Infrastructure	617,553	-	-	617,553
Intangibles	81,737	-	-	81,737
Total capital assets being depreciated	38,162,243	732,688	57,000	38,951,931
Less accumulated depreciation:				
Buildings	463,989	71,921	-	535,910
Improvements other than buildings	19,185,589	1,099,422	-	20,285,011
Equipment	1,331,353	102,011	-	1,433,364
Infrastructure	607,106	615	-	607,721
Intangibles	72,909	4,419	-	77,328
Total accumulated depreciation	21,660,946	1,278,388	-	22,939,334
Total capital assets being depreciated, net	16,501,297	(545,700)	57,000	16,012,597
Business-type activities capital assets, net	$ 16,666,353	$(486,346)	$ -	$ 16,180,007

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
City manager	$	18,650
Finance		47,276
Human resources		6,426
City secretary		28,959
Information Services		39,888
Maintenance		48,795
Community services		10,809
Police		335,324
Fire		343,645
Streets and drainage		1,216,552
Park and recreation		1,248,117
Total depreciation expense - governmental activities	$	3,344,441
Business-type activities:		
Water and wastewater	$	1,278,388
Total depreciation expense - business-type activities	$	1,278,388

E. Construction Commitments

The City has active construction projects as of September 30, 2018. At year-end the City's commitments with contractors are as follows:

Projects		Spent to Date		Remaining Commitment
Governmental activities:				
Highland Village Rd. Phase II-A – Engineering only	$	31,000	$	48,300
ICS CAD/RMS Software		341,095		45,653
Roof Replacement		814,356		344,003
2018 Street Improvements		62,743		305,752
Brazos Parking Lot		102,848		290,551
Victoria Park Sidewalk Improvements – Engineering only		10,480		17,920
Unity Softball Fields – Engineering only		24,360		60,140
Unity Pond Expansions – Engineering only		52,052		83,340
Business activities:				
Spruce Drive Water Line Replacement – Engineering only	$	4,135	$	565
12" Water Line Northwest of City – Engineering only		20,461		117,900
KCS Railroad Sewer Line		22,976		531,113
Winding Creek Oak Forest Water Line		44,125		125,205

F. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
General obligation refunding and improvement bonds	2.00 - 4.00	2011	2022	4,070,000	$ 845,000
General obligation refunding and improvement bonds	2.04	2015	2028	7,700,000	6,605,000
General obligation refunding bonds	2.28	2017	2029	2,435,000	1,805,000
General obligation refunding and improvement bonds	3.00 - 4.00	2018	2038	6,905,000	6,905,000
Total governmental activities					16,160,000
Business-type activities:					
General obligation refunding bonds	2.00 - 3.00	2012	2024	4,565,000	1,955,000
General obligation refunding bonds	2.28	2017	2029	4,050,000	3,770,000
Total business-type activities					5,725,000
Total general obligation bonds outstanding					$ 21,885,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	$ 1,160,000	$ 519,591	$ 595,000	$ 136,544
2020	1,410,000	379,941	610,000	120,608
2021	1,445,000	340,725	620,000	104,332
2022	1,490,000	300,283	640,000	87,644
2023	1,440,000	261,785	660,000	70,427
2024-2028	5,105,000	886,207	2,285,000	156,139
2029-2033	1,900,000	477,600	315,000	3,583
2034-2038	2,210,000	169,800	-	-
Total	$ 16,160,000	$ 3,335,932	$ 5,725,000	$ 679,277

Combination Tax and Revenue Certificates of Obligation

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities. Combination tax and revenue certificates of obligation outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Combination tax and revenue certificates of obligation	2.00 - 3.50	2012	2032	2,795,000	$ 2,280,000
Combination tax and revenue certificates of obligation	2.00 - 4.00	2014	2034	7,020,000	6,975,000
Total governmental activities					9,255,000
Business-type activities:					
Combination tax and revenue certificates of obligation	2.00 - 4.00	2013	2034	4,540,000	4,325,000
Combination tax and revenue certificates of obligation	3.00 - 4.00	2018	2028	2,715,000	2,715,000
Total business-type activities					7,040,000
Total certificates of obligation outstanding					$ 16,295,000

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	$ 490,000	$ 265,428	$ 220,000	$ 265,270
2020	505,000	254,153	280,000	215,806
2021	515,000	242,578	295,000	208,806
2022	530,000	230,703	295,000	201,269
2023	540,000	218,040	300,000	193,181
2024-2028	2,925,000	865,840	1,945,000	789,764
2029-2033	3,205,000	376,104	2,390,000	416,841
2034-2038	545,000	10,900	1,315,000	83,453
Total	$ 9,255,000	$ 2,463,746	$ 7,040,000	$ 2,374,390

Tax Notes

The City also issues tax notes for the purpose of paying contractual obligations to be incurred for the acquisition of equipment and construction of certain land improvements. The tax notes are payable from proceeds of ad valorem tax levied upon all taxable property in the City. Tax notes currently outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Tax Note	1.590 %	2015	2022	$ 1,535,000	$ 1,145,000

Tax Notes debt service requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities Principal	Interest
2019	$ 280,000	$ 15,979
2020	285,000	11,488
2021	290,000	6,917
2022	290,000	2,306
Total	$ 1,145,000	$ 36,690

Capital Lease Obligation

The City has entered into lease agreements as a lessee for financing the acquisition of a fire truck and ambulance. The fire truck has a useful life of fifteen years and was purchased for a total cost of $646,106 and as of September 30, 2018, $135,453 of accumulated depreciation has been recorded for this fire truck. As of year-end, the ambulance had accumulated depreciation of $65,666, and was purchased for $250,780, with a useful life of seven years.

The future minimum lease obligations and the net present value of these lease payments as of September 30, 2018, were as follows:

Year Ending September 30,	Governmental Activities
2019	$ 133,197
Total minimum lease payments	133,197
Less: amount representing interest	(2,995)
Present value of minimum lease payments	$ 130,202

G. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	$ 10,700,000	$ 6,905,000	$ 1,445,000	$ 16,160,000	$ 1,160,000
Combination tax and revenue CO	9,400,000	-	145,000	9,255,000	490,000
Tax note	1,420,000	-	275,000	1,145,000	280,000
Issuance premium	201,168	173,588	40,197	334,559	-
Total bonds payable	21,721,168	7,078,588	1,905,197	26,894,559	1,930,000
Capital lease obligation	384,078	-	253,876	130,202	130,202
Compensated absences	1,028,931	852,555	816,803	1,064,683	845,184
Governmental activities long-term liabilities	$ 23,134,177	$ 7,931,143	$ 2,975,876	$ 28,089,444	$ 2,905,386

The General Fund has typically been used to liquidate governmental activities compensated absences and net pension liability.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 6,300,000	$ -	$ 575,000	$ 5,725,000	$ 595,000
Combination tax and revenue CO	4,540,000	2,715,000	215,000	7,040,000	220,000
Issuance premium	166,037	110,618	26,979	249,676	29,053
Total bonds payable	11,006,037	2,825,618	816,979	13,014,676	844,053
Compensated absences	128,146	105,285	101,649	131,782	104,533
Business-type activities long-term liabilities	$ 11,134,183	$ 2,930,903	$ 918,628	$ 13,146,458	$ 948,586

H. Retirement Plan

Plan Descriptions. The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5 years
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated Service Credit	100% repeating
Annuity increase to retirees	70% of CPI repeating

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	115
Active employees	153
	331

Contributions. The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.63% and 13.56% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were $1,362,529 and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103% The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statue. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	$ 36,900,085	$ 31,271,069	$ 5,629,016
Changes for the year:			
Service cost	1,710,282	-	1,710,282
Interest	2,521,112	-	2,521,112
Difference between expected and actual experience	(173,461)	-	(173,461)
Contributions - employer	-	1,325,468	(1,325,468)
Contributions - employee	-	680,226	(680,226)
Net investment income	-	4,336,041	(4,336,041)
Benefit payments, including refunds of employee contributions	(810,836)	(810,836)	-
Administrative expense	-	(22,461)	22,461
Other changes	-	(1,139)	1,139
Net changes	3,247,097	5,507,299	(2,260,202)
Balance at 12/31/2017	$ 40,147,182	$ 36,778,368	$ 3,368,814

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 9,804,986	$ 3,368,814	$ 1,836,693

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at *www.tmrs.com*.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the year ended September 30, 2018, the City recognized pension expense of $1,382,414. At September 30, 2018, the City reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 264,744
Changes in actuarial assumptions	65,240	-
Difference between projected and actual investment earnings	-	979,061
Contributions subsequent to the measurement date	1,038,332	-
Totals	$ 1,103,572	$ 1,243,805

$1,049,213 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2019	$(80,180)
2020	(138,575)
2021	(497,221)
2022	(462,589)

I. Defined Other Post-Employment Benefit Plan – TMRS Supplemental Death Benefits Fund

Plan Description. The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits Provided. The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	25
Active employees	153
Total	219

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.16% for 2018 and 0.15% for 2017, of which 0.02% and 0.02%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2018 and 2017 were $9,474 and $7,684, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability

The City's total OPEB liability of $343,739 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Discount rate	3.31%
Actuarial cost method	Entry Age Normal Method
Projected salary increases	3.50% to 10.5% including inflation

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Salary increases were based on a service-related table.

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	$ 420,458	$ 343,739	$ 285,020

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2016	$ 288,493
Changes for the year:	
Service cost	16,520
Interest	11,181
Changes of assumptions	29,489
Benefit payments	(1,944)
Net changes	55,246
Balance at 12/31/2017	$ 343,739

Changes in assumptions and other inputs reflect a change in the discount rate from 3.78% to 3.3%.

OPEB Expense, and Deferred Outflows of Resources Related to OPEB. For the year ended September 30, 2018, the City recognized OPEB expense of $32,135. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

At September 30, 2018, the City reported deferred outflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	25,055
Contributions subsequent to the measurement date	1,372
Totals	$ 26,427

$1,372 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending September 30, 2019. Other amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	
2019	$ 4,434
2020	4,434
2021	4,434
2022	4,434
2023	4,434
Thereafter	2,885

J. Commitments and Contingencies

Upper Trinity Regional Water District ("UTRWD")

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. In fiscal year 2018, the City's subscribed capacity in the regional system was 1.65 million gallons per day (MGD). The City paid fixed operations and maintenance cost of $392,200/MGD, $687,380/MGD for joint facilities, and $225,235 for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) was $1.25/1,000 gallons.

In fiscal year 2018, the City had a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.11/1,000 gallons, with an annual demand charge of $428,200/MGD.

For fiscal year 2019, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City is committed to pay fixed operations and maintenance cost of $403,500/MGD, facility charges of $689,720 for joint facilities, and $223,795 annually for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) is $1.25/1,000 gallons.

In fiscal year 2019, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.09/1,000 gallons, with an annual demand charge of $439,650/MGD.

Encumbrances

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget. At year end the amount of encumbrances expected to be honored in the next year were as follows:

Fund	Amount
General	$ 841,651
Other governmental	530,629
Total	$ 1,372,280

Lawsuits

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City's only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

K. Prior Period Adjustment – Change in Accounting Principles

During fiscal year 2018, the City adopted GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. With GASB 75, the City must assume its Total OPEB Liability in connection with the TMRS SDBF. Adoption of GASB 75 required a prior period adjustment to report the effect of the standard retroactively. As such, beginning net position was restated.

REQUIRED
SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 15,017,821	$ 15,017,821	$ 14,935,246	$(82,575)
Fines and forfeitures	90,066	90,066	109,420	19,354
Licenses, permits and fees	903,740	903,740	948,627	44,887
Intergovernmental	-	-	9,300	9,300
Charges for services	456,661	456,661	493,590	36,929
Investment earnings	56,000	156,000	171,502	15,502
Miscellaneous	129,850	129,850	153,919	24,069
Total revenues	16,654,138	16,754,138	16,821,604	67,466
EXPENDITURES				
Current:				
General government:				
City manager:				
Personnel	397,154	417,154	415,000	2,154
Services and supplies	794,203	219,203	142,670	76,533
Total city manager	1,191,357	636,357	557,670	78,687
Finance:				
Personnel	956,458	991,458	996,731	(5,273)
Services and supplies	559,219	559,219	542,297	16,922
Total finance	1,515,677	1,550,677	1,539,028	11,649
Human resources:				
Personnel	421,277	311,277	296,569	14,708
Services and supplies	133,993	133,993	101,094	32,899
Total human resources	555,270	445,270	397,663	47,607
City secretary:				
Personnel	190,016	210,016	201,373	8,643
Services and supplies	149,939	149,939	119,142	30,797
Total city secretary	339,955	359,955	320,515	39,440
Information technology:				
Personnel	634,555	654,555	638,696	15,859
Services and supplies	414,348	414,348	306,799	107,549
Capital outlay	-	110,000	163,927	(53,927)
Total information technology	1,048,903	1,178,903	1,109,422	69,481
Maintenance:				
Personnel	327,979	332,979	324,470	8,509
Services and supplies	539,537	1,439,537	1,362,104	77,433
Total maintenance	867,516	1,772,516	1,686,574	85,942

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Public safety:				
Police:				
Personnel	$ 4,330,030	$ 4,180,030	$ 4,111,347	$ 68,683
Services and supplies	386,182	386,182	323,199	62,983
Capital outlay	117,000	117,000	159,986	(42,986)
Total police	4,833,212	4,683,212	4,594,532	88,680
Fire:				
Personnel	2,360,077	2,410,077	2,391,210	18,867
Services and supplies	338,080	353,080	327,936	25,144
Capital outlay	161,100	161,100	131,559	29,541
Total fire	2,859,257	2,924,257	2,850,705	73,552
Community services:				
Personnel	426,819	481,819	463,623	18,196
Services and supplies	22,658	27,658	17,849	9,809
Total building operations	449,477	509,477	481,472	28,005
Streets and drainage:				
Personnel	663,380	683,380	668,364	15,016
Services and supplies	705,877	790,877	622,120	168,757
Capital outlay	77,000	80,000	49,333	30,667
Total streets and drainage	1,446,257	1,554,257	1,339,817	214,440
Parks and recreation:				
Personnel	1,277,494	1,277,494	1,226,113	51,381
Services and supplies	730,077	760,077	696,163	63,914
Capital outlay	219,609	434,609	160,393	274,216
Total parks and recreation	2,227,180	2,472,180	2,082,669	389,511
Debt service:				
Principal	252,419	252,419	253,875	(1,456)
Interest and other charges	11,581	11,581	8,392	3,189
Total expenditures	17,598,061	18,351,061	17,222,334	1,128,727
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(943,923)	(1,596,923)	(400,730)	1,196,193
OTHER FINANCING SOURCES (USES)				
Transfers in	534,000	534,000	575,695	41,695
Transfers out	(16,000)	(66,000)	(16,000)	50,000
Total other financing sources and uses	518,000	468,000	559,695	91,695
NET CHANGE IN FUND BALANCE	(425,923)	(1,128,923)	158,965	1,287,888
FUND BALANCE, BEGINNING	7,391,960	7,391,960	7,391,960	-
FUND BALANCE, ENDING	$ 6,966,037	$ 6,263,037	$ 7,550,925	$ 1,287,888

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

COMMUNITY DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 1,291,796	$ 1,291,796	$ 1,268,252	$(23,544)
Licenses, permits and fees	58,244	58,244	47,597	(10,647)
Investment earnings	800	800	492	(308)
Total revenues	1,350,840	1,350,840	1,316,341	(34,499)
EXPENDITURES				
Parks and recreation:				
Personnel	258,465	273,465	263,796	9,669
Services and supplies	184,676	219,676	230,293	(10,617)
Capital outlay	40,000	40,000	-	40,000
Total expenditures	483,141	533,141	494,089	39,052
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	867,699	817,699	822,252	4,553
OTHER FINANCING SOURCES (USES)				
Transfer out	(898,685)	(898,685)	(898,685)	-
Total other financing sources (uses)	(898,685)	(898,685)	(898,685)	-
NET CHANGE IN FUND BALANCE	(30,986)	(80,986)	(76,433)	4,553
FUND BALANCE, BEGINNING	106,954	106,954	106,954	-
FUND BALANCE, ENDING	$ 75,968	$ 25,968	$ 30,521	$ 4,553

BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds and the Debt Service Fund. The Capital Project Funds are appropriated on a project-length basis.

The appropriated budget is prepared by fund, department and three categories – personnel, services and supplies, and capital outlay. During the fiscal year, each department is responsible to not exceed the amounts budgeted in each of the three categories. Transfers of appropriations between categories or departments require the approval of council. Category subtotals of departmental expenditures thus provide the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2018, expenditures exceed appropriation in the following fund, function, department and category.

Fund	Function/Department	Category	Amount
General	Finance	Personnel	$ 5,273
General	Information Technology	Capital outlay	53,927
General	Public Safety/Police	Capital outlay	42,896
General	Debt Service	Principal	1,456
Public Safety	Police	Services and supplies	16,976
Public Safety	Fire	Services and supplies	1,378
Community Development Corporation	Parks and recreation	Services and supplies	10,617

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Measurement Date December 31,	2014	2015	2016	2017
A. Total pension liability				
Service Cost	$ 1,370,530	$ 1,535,928	$ 1,646,661	$ 1,710,282
Interest (on the Total Pension Liability)	1,983,761	2,177,527	2,307,773	2,521,112
Difference between expected and actual experience	(10,973)	(226,332)	(95,490)	(173,461)
Changes of assumptions	-	196,596	-	-
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)	(649,521)	(810,836)
Net change in total pension liability	2,692,726	3,018,466	3,209,423	3,247,097
Total pension liability - beginning	27,979,470	30,672,196	33,690,662	36,900,085
Total pension liability - ending (a)	$ 30,672,196	$ 33,690,662	$ 36,900,085	$ 40,147,182
B. Plan fiduciary net position				
Contributions - employer	$ 1,070,712	$ 1,187,926	$ 1,229,404	$ 1,325,468
Contributions - employee	588,766	625,694	651,959	680,226
Net investment income	1,407,343	39,833	1,903,485	4,336,041
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)	(649,521)	(810,836)
Administrative expense	(14,690)	(24,263)	(21,492)	(22,461)
Other	(1,208)	(1,197)	(1,158)	(1,138)
Net change in plan fiduciary net position	2,400,331	1,162,740	3,112,677	5,507,299
Plan fiduciary net position - beginning	24,595,321	26,995,652	28,158,392	31,271,069
Plan fiduciary net position - ending (b)	$ 26,995,652	$ 28,158,392	$ 31,271,069	$ 36,778,368
C. Net pension liability - ending (a) - (b)	$ 3,676,544	$ 5,532,270	$ 5,629,016	$ 3,368,814
D. Plan fiduciary net position as a percentage of total pension liability	88.01%	83.58%	84.75%	91.61%
E. Covered payroll	$ 8,410,947	$ 8,940,209	$ 9,313,695	$ 9,717,511
F. Net position liability as a percentage of covered payroll	43.71%	61.88%	60.44%	34.67%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2018, only 4 years are included and additional years will be added in the future as the information becomes available.

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Fiscal Year Ended September 30,	2014	2015	2016	2017	2018
Actuarial determined contribution	$ 1,049,673	$ 1,163,130	$ 1,258,570	$ 1,303,201	$ 1,362,529
Contributions in relation to the actuarially determined contribution	1,049,673	1,163,130	1,258,570	1,303,201	1,362,529
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	8,329,839	8,859,846	9,517,623	9,628,107	10,031,460
Contributions as a percentage of covered payroll	12.60%	13.13%	13.22%	13.54%	13.58%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2018, only 5 years are included and additional years will be added in the future as the information becomes available.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date — Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 109% and projected on a fully generational basis with scale BB.

Other Information — There were no benefit change during this year.

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Measurement Date December 31,	**2017**
A. Total OPEB liability	
Service Cost	$ 16,520
Interest (on the Total OPEB Liability)	11,181
Changes of assumptions	29,489
Benefit payments, including refunds of employee contributions	(1,944)
Net change in Total OPEB liability	55,246
Total OPEB liability - beginning	288,493
Total OPEB liability - ending	343,739
B. Covered-employee payroll	$ 9,717,511
C. Total OPEB liability as a percentage of covered-employee payroll	3.54%

Notes to Schedule:

- No assets are accumulated in a trust for the SDB plan to pay related benefits that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- This schedule is required to have 10 years of information, but the information prior to 2017 is not available.
- Included in the changes of assumptions was a reduction to the discount rate from 3.81% to 3.31%.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Corps Leased Parks Fund – This fund is used to account for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons are committed to finance operations.

Public Safety Fund – This fund accounts for funds received from local, state and federal sources for the purpose of supporting the City's Police and Fire programs.

Municipal Court Building Security Fund – The security building fund provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The state legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

Utility Drainage Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City's drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

PEG Fee Fund – This fund is used to account for public, educational, and governmental (PEG) fees charged to cable users, which are restricted for the City's PEG channel.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by proprietary funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

Park Development Fund – This fund accounts for development fees charged to property developers, which are committed for development and maintenance of City parks.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
ASSETS			
Cash and investments	$ 273,211	$ -	$ 32,722
Receivables:			
Intergovernmental	-	51,523	-
Other	19,711	-	-
Prepaid items	1,735	-	-
Total assets	294,657	51,523	32,722
LIABILITIES			
Accounts payable	46,998	429	-
Accrued liabilities	2,886	4,954	-
Due to other funds	-	14,378	-
Unearned revenue	50,741	-	-
Total liabilities	100,625	19,761	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable:			
Grants	-	25,485	-
Total deferred inflows of resources	-	25,485	-
FUND BALANCES			
Restricted for:			
Public safety - law enforcement operations	-	6,277	32,722
Utility drainage operations	-	-	-
Public broadcasting	-	-	-
Committed - park development and maintenance	194,032	-	-
Total fund balances	194,032	6,277	32,722
Total liabilities, deferred inflows of resources, and fund balances	$ 294,657	$ 51,523	$ 32,722

Special Revenue			Capital Projects	Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Nonmajor Governmental Funds
$ 32,022	$ 359,362	$ 101,052	$ 69,437	$ 867,806
-	-	-	-	51,523
-	-	12,650	-	32,361
-	4,688	-	-	6,423
32,022	364,050	113,702	69,437	958,113
19	17,672	10	-	65,128
-	5,564	-	-	13,404
-	-	-	-	14,378
-	-	-	-	50,741
19	23,236	10	-	143,651
-	-	-	-	25,485
-	-	-	-	25,485
32,003	-	-	-	71,002
-	340,814	-	-	340,814
-	-	113,692	-	113,692
-	-	-	69,437	263,469
32,003	340,814	113,692	69,437	788,977
$ 32,022	$ 364,050	$ 113,702	$ 69,437	$ 958,113

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
REVENUES			
Licenses, permits and fees	$ 392,620	$ -	$ 2,603
Intergovernmental	57,814	72,316	-
Investment earnings	254	-	-
Total revenues	450,688	72,316	2,603
EXPENDITURES			
Current:			
General government:			
Finance	-	-	-
Public safety:			
Police	-	26,576	-
Fire	-	1,378	-
Community services:			
Streets and drainage Maintenance	-	-	-
Parks and recreation	415,122	-	-
Capital outlay	341,941	-	-
Total expenditures	757,063	27,954	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(306,375)	44,362	2,603
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(61,695)	-
Total other financing sources and uses	-	(61,695)	-
NET CHANGE IN FUND BALANCES	(306,375)	(17,333)	2,603
FUND BALANCES, BEGINNING	500,407	23,610	30,119
FUND BALANCES, ENDING	$ 194,032	$ 6,277	$ 32,722

Special Revenue			Capital Projects	Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Nonmajor Governmental Funds
$ 3,471	$ 511,959	$ 52,570	$ 68,400	$ 1,031,623
-	-	-	-	130,130
-	3,832	-	351	4,437
3,471	515,791	52,570	68,751	1,166,190
5,640	-	4,144	-	9,784
-	-	-	-	26,576
-	-	-	-	1,378
-	448,609	-	-	448,609
-	-	-	-	415,122
-	24,695	-	-	366,636
5,640	473,304	4,144	-	1,268,105
(2,169)	42,487	48,426	68,751	(101,915)
-	16,000	-	-	16,000
-	(16,000)	-	-	(77,695)
-	-	-	-	(61,695)
(2,169)	42,487	48,426	68,751	(163,610)
34,172	298,327	65,266	686	952,587
$ 32,003	$ 340,814	$ 113,692	$ 69,437	$ 788,977

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Taxes	$ 1,525,882	$ 1,525,882	$ 1,510,842	$(15,040)
Investment earnings	1,400	1,400	5,197	3,797
Total revenues	1,527,282	1,527,282	1,516,039	(11,243)
EXPENDITURES				
Debt service:				
Principal	1,865,000	1,865,000	1,865,000	-
Interest and other charges	525,567	525,567	523,415	2,152
Total expenditures	2,390,567	2,390,567	2,388,415	2,152
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(863,285)	(863,285)	(872,376)	(9,091)
OTHER FINANCING SOURCES (USES)				
Transfers in	870,685	870,685	870,685	-
Total other financing sources and uses	870,685	870,685	870,685	-
NET CHANGE IN FUND BALANCE	7,400	7,400	(1,691)	(9,091)
FUND BALANCE, BEGINNING	161,180	161,180	161,180	-
FUND BALANCE, ENDING	$ 168,580	$ 168,580	$ 159,489	$(9,091)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CORPS LEASED PARKS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 380,650	$ 380,650	$ 392,620	$ 11,970
Intergovernmental	50,000	50,000	57,814	7,814
Investment earnings	800	800	254	(546)
Total revenues	431,450	431,450	450,688	19,238
EXPENDITURES				
Parks and recreation:				
Personnel	204,197	204,197	178,434	25,763
Services and supplies	129,171	244,171	236,688	7,483
Capital outlay	280,300	362,300	341,941	20,359
Total expenditures	613,668	810,668	757,063	53,605
NET CHANGE IN FUND BALANCE	(182,218)	(379,218)	(306,375)	72,843
FUND BALANCE, BEGINNING	500,407	500,407	500,407	-
FUND BALANCE, ENDING	$ 318,189	$ 121,189	$ 194,032	$ 72,843

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC SAFETY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	$ 25,600	$ 72,600	$ 72,316	$(284)
Total revenues	25,600	72,600	72,316	(284)
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,600	9,600	26,576	(16,976)
Fire:				
Services and supplies	-	-	1,378	(1,378)
Capital outlay	-	35,000	-	35,000
Total expenditures	3,600	44,600	27,954	16,646
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	22,000	28,000	44,362	16,362
OTHER FINANCING SOURCES (USES)				
Transfer out	(22,000)	(22,000)	(61,695)	(39,695)
Total other financing sources (uses)	(22,000)	(22,000)	(61,695)	(39,695)
NET CHANGE IN FUND BALANCE	-	6,000	(17,333)	(23,333)
FUND BALANCE, BEGINNING	23,610	23,610	23,610	-
FUND BALANCE, ENDING	$ 23,610	$ 29,610	$ 6,277	$(23,333)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT BUILDING SECURITY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 2,700	$ 2,700	$ 2,603	$(97)
Total revenues	2,700	2,700	2,603	(97)
EXPENDITURES	-	-	-	-
NET CHANGE IN FUND BALANCE	2,700	2,700	2,603	(97)
FUND BALANCE, BEGINNING	30,119	30,119	30,119	-
FUND BALANCE, ENDING	$ 32,819	$ 32,819	$ 32,722	$(97)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT TECHNOLOGY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 3,500	$ 3,500	$ 3,471	$(29)
Total revenues	3,500	3,500	3,471	(29)
EXPENDITURES				
General government:				
Services and supplies	5,500	5,700	5,640	60
Total expenditures	5,500	5,700	5,640	60
NET CHANGE IN FUND BALANCE	(2,000)	(2,200)	(2,169)	31
FUND BALANCE, BEGINNING	34,172	34,172	34,172	-
FUND BALANCE, ENDING	$ 32,172	$ 31,972	$ 32,003	$ 31

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

UTILITY DRAINAGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 490,000	$ 490,000	$ 511,959	$ 21,959
Investment earnings	75	75	3,832	3,757
Total revenues	490,075	490,075	515,791	25,716
EXPENDITURES				
Street and drainage:				
Personnel	359,292	359,292	358,046	1,246
Services and supplies	154,470	154,470	90,563	63,907
Capital outlay	24,700	24,700	24,695	5
Total expenditures	538,462	538,462	473,304	65,158
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(48,387)	(48,387)	42,487	90,874
OTHER FINANCING SOURCES (USES)				
Transfers in	16,000	16,000	16,000	-
Transfers out	(16,000)	(16,000)	(16,000)	-
Total other financing sources (uses)	-	-	-	-
NET CHANGE IN FUND BALANCE	(48,387)	(48,387)	42,487	90,874
FUND BALANCE, BEGINNING	298,327	298,327	298,327	-
FUND BALANCE, ENDING	$ 249,940	$ 249,940	$ 340,814	$ 90,874

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PEG FEE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
PEG fees	$ 52,000	$ 52,000	$ 52,570	$ 570
Total revenues	52,000	52,000	52,570	570
EXPENDITURES				
General government:				
Services and supplies	3,000	7,000	4,144	2,856
Total expenditures	3,000	7,000	4,144	2,856
NET CHANGE IN FUND BALANCE	49,000	45,000	48,426	3,426
FUND BALANCE, BEGINNING	65,266	65,266	65,266	-
FUND BALANCE, ENDING	$ 114,266	$ 110,266	$ 113,692	$ 3,426

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS BY SOURCE

SEPTEMBER 30, 2018

GENERAL CAPITAL ASSETS		
Land	$	17,183,848
Land improvements		24,065,143
Building and improvements		15,836,740
Equipment		8,986,723
Other capital assets		537,689
Infrastructure		41,904,326
Construction in progress		476,047
Total general capital assets	$	108,990,516
INVESTMENT IN GENERAL CAPITAL ASSETS		
Investment in general capital assets acquired prior to October 1, 1990	$	655,037
General fund		10,256,701
Vehicle replacement fund		670,674
Special revenue funds		23,464,882
Capital project funds		26,765,515
Donations		47,177,707
Total investment in general capital assets	$	108,990,516

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY

SEPTEMBER 30, 2018

Department	Land	Land Improvements	Building Improvements	Equipment	Other Assets	Infrastructure	Construction in Progress	Total
City Manager	$ 430,748	$ -	$ 265,915	$ 54,275	$ -	$ -	$ -	$ 750,938
Finance	26,652	-	412,718	414,433	141,029	-	-	994,832
Human Resources	8,812	-	113,185	-	13,388	-	-	135,385
City Secretary	41,479	-	511,673	-	18,447	-	-	571,599
Information services	-	-	-	273,601	-	-	-	273,601
Police	214,495	83,270	2,765,228	2,100,722	347,368	-	-	5,511,083
Fire	41,800	19,796	4,445,595	2,892,948	-	-	-	7,400,139
Building Operations	8,928	-	142,993	53,339	-	-	-	205,260
Streets and Drainage	11,571,914	1,007,402	885,794	1,072,129	-	41,468,681	62,743	56,068,663
Maintenance	65,609	-	775,361	166,922	-	-	-	1,007,892
Drainage Operations	-	29,200	451,842	768,373	-	435,645	-	1,685,060
Parks and Recreation	4,773,411	22,925,475	5,066,436	1,189,981	17,457	-	413,304	34,386,064
Total general capital assets	$ 17,183,848	$ 24,065,143	$ 15,836,740	$ 8,986,723	$ 537,689	$ 41,904,326	$ 476,047	$ 108,990,516

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS - CHANGES BY FUNCTION AND ACTIVITY

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Department	Balance September 30, 2017	Additions	Retirements / Transfers	Balance September 30, 2018
City manager	$ 750,938	$ -	$ -	$ 750,938
Finance	994,832	-	-	994,832
Human resources	135,385	-	-	135,385
City secretary	571,599	-	-	571,599
Information services	109,674	163,927	-	273,601
Police	5,351,098	159,985	-	5,511,083
Fire	7,268,579	131,560	-	7,400,139
Building operations	205,260	-	-	205,260
Streets and drainage	55,956,588	112,075	-	56,068,663
Maintenance	1,223,763	-	215,871	1,007,892
Drainage operations	1,660,365	24,695	-	1,685,060
Parks and recreation	33,689,439	714,824	18,199	34,386,064
Total capital assets	$ 107,917,520	$ 1,307,066	$ 234,070	$ 108,990,516

STATISTICAL SECTION

This part of the City of Highland Village, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	85
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	93
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	97
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	102
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	106

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF HIGHLAND VILLAGE, TEXAS

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Net investment in capital assets	$ 36,047,885	$ 37,529,766	$ 36,432,805	$ 36,579,491	$ 38,572,424	$ 39,860,121	$ 40,160,271	$ 40,067,568	$ 40,453,356	$ 40,191,697
Restricted:										
Debt service	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725	99,242	-
Community development	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532	106,954	30,521
Public safety	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901	71,002
Utility drainage	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327	340,814
Public broadcasting	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266	113,692
Capital projects	345,422	386,322	-	-	-	-	-	-	-	-
Unrestricted	4,824,756	4,840,585	4,208,202	4,454,302	3,906,066	3,931,056	2,210,827	2,005,564	3,907,904	3,603,647
Total governmental activities net position	$ 41,486,530	$ 44,108,215	$ 42,570,366	$ 42,746,830	$ 43,418,005	$ 44,698,844	$ 43,681,853	$ 43,135,445	$ 45,018,950	$ 44,351,373
Business-type activities:										
Net investment in capital assets	$ 5,465,933	$ 5,664,677	$ 7,149,038	$ 6,393,534	$ 6,442,425	$ 6,325,308	$ 5,519,051	$ 6,738,242	$ 6,603,211	$ 6,875,079
Restricted:										
Capital projects	1,678,094	1,457,105	1,657,116	1,110,634	850,597	854,369	859,804	883,399	851,976	897,706
Unrestricted	2,951,956	2,130,193	2,830,923	3,079,711	3,594,106	3,142,581	2,830,311	2,030,254	1,421,159	2,244,865
Total business-type activities net position	$ 10,095,983	$ 9,251,975	$ 11,637,077	$ 10,583,879	$ 10,887,128	$ 10,322,258	$ 9,209,166	$ 9,651,895	$ 8,876,346	$ 10,017,650
Primary government:										
Net investment in capital assets	$ 41,513,818	$ 43,194,443	$ 43,581,843	$ 42,973,025	$ 45,014,849	$ 46,185,429	$ 45,679,332	$ 46,805,810	$ 47,056,567	$ 47,066,776
Restricted:										
Debt service	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725	99,242	-
Community Development	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532	106,954	30,521
Public safety	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901	71,002
Utility drainage	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327	340,814
Public broadcasting	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266	113,692
Capital projects	2,023,516	1,843,427	1,657,116	1,110,634	850,597	854,369	859,804	883,399	851,976	897,706
Unrestricted	7,776,712	6,970,778	7,039,125	7,534,013	7,500,172	7,073,637	5,041,138	4,035,818	5,329,063	5,848,512
Total primary government net position	$ 51,582,513	$ 53,360,190	$ 54,207,443	$ 53,330,709	$ 54,305,133	$ 55,021,102	$ 52,891,029	$ 52,787,340	$ 53,895,296	$ 54,369,023

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

	Fiscal Year		
	2009	2010	2011
EXPENSES			
Governmental activities:			
General government	$ 3,087,596	$ 3,309,453	$ 4,061,944
Public safety	5,454,270	5,716,458	6,057,589
Building operations	342,084	347,208	311,579
Community development	506,031	510,371	-
Community services	-	-	-
Streets and drainage	2,395,655	2,252,522	2,323,968
Parks and recreation	2,355,359	2,548,972	2,869,595
Interest on long-term debt	932,556	974,478	844,711
Total governmental activities expenses	15,073,551	15,659,462	16,469,386
Business-type activities:			
Water and wastewater	7,256,548	8,086,711	7,956,791
Total business-type activities expenses	7,256,548	8,086,711	7,956,791
Total primary government program expenses	$ 22,330,099	$ 23,746,173	$ 24,426,177
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
General government	$ 160,388	$ 243,938	$ 247,160
Public safety	288,262	200,990	228,724
Building operations	-	-	328,780
Community services	-	-	-
Community development	326,529	293,338	-
Streets and drainage	396,519	397,886	401,583
Parks and recreation	365,163	393,737	452,633
Operating grants and contributions	383,646	227,209	148,982
Capital grants and contributions	2,078,055	-	72,385
Total governmental activities program revenues	3,998,562	1,757,098	1,880,247
Business-type activities:			
Charges for services:			
Water and wastewater	7,643,327	7,348,133	9,062,987
Capital grants and contributions	196,340	106,473	193,982
Total business-type activities program revenues	7,839,667	7,454,606	9,256,969
Total primary government program revenues	$ 11,838,229	$ 9,211,704	$ 11,137,216

TABLE 2

Fiscal Year						
2012	2013	2014	2015	2016	2017	2018
$ 3,866,847	$ 4,012,367	$ 4,089,989	$ 4,330,662	$ 4,392,360	$ 4,654,057	$ 5,648,223
6,172,127	6,220,099	6,361,961	6,848,781	7,782,368	7,850,784	7,915,283
366,097	-	-	-	-	-	-
-	-	-	-	-	-	-
-	386,807	389,300	415,562	446,470	495,494	499,071
2,436,763	2,554,759	3,157,921	2,546,268	2,826,584	2,953,293	2,956,194
3,012,260	3,059,741	3,199,066	3,199,678	3,534,661	3,740,883	4,099,709
786,492	766,603	887,123	836,051	699,315	605,867	719,953
16,640,586	17,000,376	18,085,360	18,177,002	19,681,758	20,300,378	21,838,433
9,674,321	7,782,455	8,530,306	8,525,158	8,500,825	8,698,522	9,195,566
9,674,321	7,782,455	8,530,306	8,525,158	8,500,825	8,698,522	9,195,566
$ 26,314,907	$ 24,782,831	$ 26,615,666	$ 26,702,160	$ 28,182,583	$ 28,998,900	$ 31,033,999
$ 270,446	$ 346,896	$ 349,821	$ 331,895	$ 283,062	$ 294,421	$ 300,258
244,070	234,931	291,234	285,879	429,534	527,165	539,212
287,245	-	-	-	-	-	-
-	326,450	424,368	388,580	524,273	770,577	468,954
-	-	-	-	-	-	-
404,726	399,727	469,914	474,492	517,450	495,438	503,839
502,356	408,598	474,319	474,514	654,906	724,620	818,946
223,526	79,277	44,048	32,377	44,839	126,776	92,883
202,669	1,541,554	1,731,955	1,353,726	221,974	235,846	65,314
2,135,038	3,337,433	3,785,659	3,341,463	2,676,038	3,174,843	2,789,406
8,751,077	8,486,005	8,101,643	7,888,614	8,011,036	8,224,755	10,036,132
145,701	79,560	148,467	104,191	911,608	141,554	686,042
8,896,778	8,565,565	8,250,110	7,992,805	8,922,644	8,366,309	10,722,174
$ 11,031,816	$ 11,902,998	$ 12,035,769	$ 11,334,268	$ 11,598,682	$ 11,541,152	$ 13,511,580

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year		
	2009	2010	2011
NET (EXPENSE) REVENUES			
Governmental activities	$(11,074,989)	$(13,902,364)	$(14,589,139)
Business-type activities	583,119	(632,105)	1,300,178
Total primary government net expense	(10,491,870)	(14,534,469)	(13,288,961)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	9,410,561	9,487,593	9,323,925
Franchise	1,384,660	1,417,221	1,412,034
Sales	1,885,786	2,781,423	3,004,273
Unrestricted investment earnings	340,518	74,569	45,144
Gain on sale of assets	39,610	-	33,260
Miscellaneous	198,299	210,188	281,566
Transfers	240,000	276,500	(1,048,912)
Total governmental activities	13,499,434	14,247,494	13,051,290
Business-type activities:			
Unrestricted investment earnings	60,467	64,597	36,012
Transfers	(240,000)	(276,500)	1,048,912
Total business-type activities	(179,533)	(211,903)	1,084,924
Total primary government	13,319,901	14,035,591	14,136,214
CHANGE IN NET POSITION			
Governmental activities	2,424,445	345,130	(1,537,849)
Business-type activities	403,586	(844,008)	2,385,102
Total primary government	$ 2,828,031	$(498,878)	$ 847,253

TABLE 2

Fiscal Year						
2012	2013	2014	2015	2016	2017	2018
$(14,505,548)	$(13,700,224)	$(14,299,701)	$(14,835,539)	$(17,005,720)	$(17,125,535)	$(19,049,027)
(777,543)	766,821	(280,196)	(532,353)	421,819	(332,213)	1,526,608
(15,283,091)	(12,933,403)	(14,579,897)	(15,367,892)	(16,583,901)	(17,457,748)	(17,522,419)
9,397,945	9,336,875	9,726,985	10,220,940	10,876,727	11,601,454	12,126,314
1,582,402	1,640,398	1,720,762	1,722,995	1,658,700	1,626,903	1,699,608
3,252,413	3,304,660	3,613,216	3,690,787	3,786,900	3,830,637	3,915,696
32,737	38,059	33,308	36,026	54,786	81,049	269,069
27,485	-	-	-	-	-	-
89,030	199,282	186,269	122,009	83,908	1,398,997	153,919
300,000	300,000	300,000	300,000	(1,709)	470,000	470,000
14,682,012	14,819,274	15,580,540	16,092,757	16,459,312	19,009,040	18,634,606
24,345	12,142	15,326	17,104	19,201	26,664	84,696
(300,000)	(300,000)	(300,000)	(300,000)	1,709	(470,000)	(470,000)
(275,655)	(287,858)	(284,674)	(282,896)	20,910	(443,336)	(385,304)
14,406,357	14,531,416	15,295,866	15,809,861	16,480,222	18,565,704	18,249,302
176,464	1,119,050	1,280,839	1,257,218	(546,408)	1,883,505	(414,421)
(1,053,198)	478,963	(564,870)	(815,249)	442,729	(775,549)	1,141,304
$(876,734)	$ 1,598,013	$ 715,969	$ 441,969	$(103,679)	$ 1,107,956	$ 726,883

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Nonspendable - prepaid items	$ -	$ -	$ 1,073	$ 772	$ 7,319	$ 1,176	$ 449	$ 251,748	$ 1,250	$ 99,008
Assigned	-	-	-	-	151,582	185,104	865,468	1,270,558	2,142,128	2,011,564
Unassigned	-	-	4,295,895	4,539,271	4,442,650	4,357,319	4,207,414	3,933,919	5,248,582	5,440,353
Reserved	283,297	188,860	-	-	-	-	-	-	-	-
Unreserved	3,633,978	4,001,874	-	-	-	-	-	-	-	-
Total general fund	$ 3,917,275	$ 4,190,734	$ 4,296,968	$ 4,540,043	$ 4,601,551	$ 4,543,599	$ 5,073,331	$ 5,456,225	$ 7,391,960	$ 7,550,925
All other governmental funds										
Restricted, for the purpose of:										
Debt service	$ -	$ -	$ 349,270	$ 354,029	$ 160,157	$ 168,040	$ 154,343	$ 141,058	$ 161,180	$ 159,489
Community development	-	-	2,539,696	2,350,393	1,820,252	8,056,884	2,349,085	751,846	106,954	30,521
Public safety	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901	71,002
Utility drainage	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327	340,814
Capital projects	-	-	371,455	3,104,486	785,227	641,828	392,061	438,834	45,662	6,865,552
Public Broadcasting	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266	113,692
Committed - parks	-	-	236,402	167,766	86,178	106,705	120,422	262,224	501,093	263,469
Reserved	12,534,051	1,865,015	-							
Unreserved, reported in:										
Special revenue funds	517,724	3,180,113	-	-	-	-	-	-	-	-
Capital projects funds	173,291	-	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 13,225,066	$ 5,045,128	$ 4,007,342	$ 6,356,821	$ 3,121,289	$ 9,246,365	$ 3,295,801	$ 1,949,018	$ 1,266,383	$ 7,844,539

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
REVENUES										
Taxes	$ 12,665,467	$ 13,698,528	$ 13,747,894	$ 14,234,807	$ 14,271,269	$ 15,066,221	$ 15,625,989	$ 16,308,934	$ 17,060,166	$ 17,714,340
Fines and forfeitures	148,806	243,880	216,558	123,635	170,442	158,183	124,932	99,082	98,699	109,420
Licenses, permits, fees	1,127,547	1,132,330	1,256,464	1,372,677	1,414,988	1,600,992	1,565,929	1,916,752	2,219,095	2,027,847
Intergovernmental	358,837	224,909	147,182	353,433	1,620,831	1,651,123	1,435,235	310,519	387,946	139,430
Charges for services	260,508	152,512	220,595	201,896	206,460	252,168	253,851	391,627	485,553	493,590
Investment earnings	317,234	97,853	45,144	16,795	54,003	33,308	36,026	54,786	81,049	269,069
Miscellaneous	223,108	212,488	318,178	117,514	199,282	186,269	122,009	114,448	1,398,997	153,919
Total revenues	15,101,507	15,762,500	15,952,015	16,420,757	17,937,275	18,948,264	19,163,971	19,196,148	21,731,505	20,907,615
EXPENDITURES										
General government	2,951,409	3,184,450	3,877,964	3,676,079	3,821,447	3,862,314	4,137,117	4,135,129	4,337,308	5,456,729
Public safety	4,789,474	5,049,759	5,368,601	5,570,980	5,563,505	5,726,860	6,212,042	6,952,405	6,890,116	7,181,646
Building operations	336,072	341,466	306,349	352,156	-	-	-	-	-	-
Community development	492,933	517,773	-	-	-	-	-	-	-	-
Community service	-	-	-	-	373,690	378,626	401,541	430,163	455,266	481,472
Streets and drainage	1,290,052	1,081,337	1,185,257	1,208,138	1,359,195	1,936,985	1,352,770	1,589,676	1,695,038	1,739,093
Parks and recreation	1,962,700	2,039,292	2,283,597	2,313,973	2,354,526	2,415,834	2,378,196	2,626,904	2,558,767	2,831,487
Debt service:										
Principal	1,401,407	1,781,323	1,696,671	1,765,000	1,735,000	1,815,000	1,955,000	2,176,616	2,263,592	2,118,875
Interest and other	1,049,888	980,673	901,321	824,359	794,461	888,597	863,286	716,472	650,698	602,713
Capital outlay	1,946,051	5,345,918	1,594,158	1,336,567	5,409,475	3,223,116	8,218,357	3,868,574	2,127,620	1,307,067
Total expenditures	16,219,986	20,321,991	17,213,918	17,047,252	21,411,299	20,247,332	25,518,309	22,495,939	20,978,405	21,719,082

TABLE 4

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$(1,118,479)	$(4,559,491)	$(1,261,903)	$(626,495)	$(3,474,024)	$(1,299,068)	$(6,354,338)	$(3,299,791)	$ 753,100	$(811,467)
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	3,830,000	-	4,070,000	2,795,000	-	7,020,000	-	9,235,000	2,435,000	6,905,000
Proceeds from capital leases	-	-	-	-	-	-	633,506	250,780	-	-
Premium on debt issuance	33,843	-	200,910	124,049	-	46,192	-	-	-	173,588
Proceeds from sale capital assets	39,610	-	-	-	-	-	-	-	-	-
Payments to escrow account	-	-	(4,240,559)	-	-	-	-	(7,619,878)	(2,405,000)	-
Transfers in	730,493	1,612,313	1,314,389	1,198,962	1,268,715	1,235,142	1,283,905	2,290,168	2,005,329	1,462,380
Transfers out	(490,493)	(1,335,813)	(1,014,389)	(898,962)	(968,715)	(935,142)	(983,905)	(1,820,168)	(1,535,329)	(992,380)
Total other financing sources (uses)	4,143,453	276,500	330,351	3,219,049	300,000	7,366,192	933,506	2,335,902	500,000	7,548,588
NET CHANGE IN FUND BALANCES	$ 3,024,974	$(4,282,991)	$(931,552)	$ 2,592,554	$(3,174,024)	$ 6,067,124	$(5,420,832)	$(963,889)	$ 1,253,100	$ 6,737,121
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	17.2%	18.4%	16.6%	16.5%	15.8%	15.9%	16.6%	15.6%	15.1%	13.3%

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Real Property		Personal Property	Less: Tax-exempt Property	Net Taxable Assessed Value	Total Direct Tax Rate	Estimated Total Levy
	Residential Property	Commercial Property					
2009	1,367,695,704	254,564,950	63,406,709	68,338,327	1,617,329,036	0.56963	9,212,791
2010	1,392,011,109	272,382,720	63,385,404	69,657,350	1,658,121,883	0.56963	9,445,160
2011	1,401,737,552	225,092,872	53,733,486	75,046,468	1,605,517,442	0.56963	9,145,509
2012	1,416,483,461	252,976,165	59,119,095	80,495,062	1,648,083,659	0.56963	9,387,979
2013	1,411,883,987	254,483,493	58,492,381	89,119,649	1,635,740,212	0.56963	9,317,667
2014	1,461,181,835	263,597,977	60,771,959	90,906,933	1,694,644,838	0.56963	9,653,205
2015	1,564,231,925	278,425,113	60,243,887	105,428,441	1,797,472,484	0.56963	10,238,943
2016	1,649,565,971	313,545,655	64,490,237	106,266,234	1,921,335,629	0.56963	10,944,504
2017	1,760,795,273	312,423,960	63,604,815	120,818,328	2,016,005,720	0.56963	11,483,773
2018	1,890,908,720	343,451,978	64,741,269	162,929,317	2,136,172,650	0.56802	12,133,888

Source: Denton County Appraisal District

Note: Estimated total levy is calculated by multiplying the net taxable assessed value by the total direct tax rate per $100 of net taxable assessed value.

Residential: single family, vacant lots, acreage, and farm/ranch and personal.

Commercial: real commercial, personal industrial and utilities.

TABLE 6

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
2009	0.45433	0.11530	0.56963	1.38000	0.23577
2010	0.45413	0.11550	0.56963	1.40870	0.24980
2011	0.45504	0.11459	0.56963	1.42670	0.27390
2012	0.45855	0.11108	0.56963	1.42600	0.27736
2013	0.46983	0.09980	0.56963	1.45300	0.28287
2014	0.46129	0.10834	0.56963	1.47700	0.28491
2015	0.46999	0.09964	0.56963	1.47700	0.27220
2016	0.47817	0.09146	0.56963	1.47673	0.26220
2017	0.48279	0.08684	0.56963	1.42000	0.24840
2018	0.49706	0.07096	0.56802	1.40750	0.23781

Source: Denton County Tax Collector's Office
Lewisville Independent School District Budget Office

Note: A typical property tax bill would consist of the City, School District and County taxes.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

	2018		2009	
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
MP Shops at Highland Village, LLC	$ 70,000,000	3.277%	$ -	- %
DDR Highland Village, LP	47,784,537	2.237%	-	- %
HHSG, LLC	27,310,994	1.279%	-	- %
Wal-Mart Stores Texas, LP	17,452,171	0.817%	-	- %
PS LPT Property Investors	12,806,310	0.599%	-	- %
Centro NP Holdings 12 SPE, LLC	10,452,026	0.489%	-	- %
ADV Highland Village Property Owner, LLC	9,214,891	0.431%	-	- %
Barnett Healthcare Prop, LLC	8,719,750	0.408%	-	- %
CoServ Elecrtric Co-Op	6,153,000	0.288%	-	- %
HSM Highland Point S/C. LTD	5,428,000	0.254%	-	- %
Shops at Highland Village Dev., LTD	-	- %	49,090,588	3.035%
Opus Real Estate TX VII HV, LP	-	- %	35,506,110	2.195%
Wal-Mart Stores Texas, LP	-	- %	21,061,478	1.302%
CenterAmerica Prop. Trust, LP	-	- %	10,105,188	0.625%
Wal-Mart Stores Texas, LP	-	- %	9,610,156	0.594%
OW Commercial, Inc.	-	- %	8,000,000	0.495%
Celebrations Management, Inc.	-	- %	6,348,326	0.393%
CoServ Elecrtric Co-Op, Inc.	-	- %	4,824,140	0.298%
Barnett Healthcare Prop, LLC	-	- %	4,776,492	0.295%
Chapel Springs Development, LTD	-	- %	4,755,169	0.294%
Total	$ 215,321,679	10.080%	$ 154,077,647	9.527%

Source: Denton county Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2017 (fiscal year 2018) is $2,136,172,650

** Total taxable value including real and personal property for tax year 2008 (fiscal year 2009) is $1,617,329,036

TABLE 8

CITY OF HIGHLAND VILLAGE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2009	9,359,745	9,315,842	99.53%	40,339	9,356,181	99.96%
2010	9,449,566	9,409,516	99.58%	38,189	9,447,705	99.98%
2011	9,331,792	9,311,956	99.79%	17,621	9,329,577	99.98%
2012	9,378,644	9,362,729	99.83%	13,630	9,376,359	99.98%
2013	9,315,832	9,293,267	99.76%	19,323	9,312,589	99.97%
2014	9,697,513	9,672,999	99.75%	19,361	9,692,360	99.95%
2015	10,201,729	10,176,515	99.75%	15,198	10,191,713	99.90%
2016	10,853,080	10,824,025	99.73%	19,887	10,843,912	99.92%
2017	11,572,279	11,546,650	99.78%	10,478	11,557,127	99.87%
2018	12,140,133	12,099,984	99.67%	0.00	12,099,984	99.67%

Sources: Denton County appraisal District and Denton County Tax office.

Notes: Tax levy includes adjustments and supplements made to the property roll during the fiscal year.
Delinquent collections do not include penalty and interest.

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

	Governmental Activities				Business-type Activities					
Fiscal Year	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Tax Note	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Total Primary Government	Percentage of Personal Income*	Per Capita*
2009	$ 16,676,096	$ 7,922,613	$ 108,442	$ -	$ 1,574,794	$ 11,868,586	$ 128,756	$ 38,279,287	6.14%	$ 2,415
2010	15,448,553	7,428,791	-	-	1,330,983	11,288,976	87,448	35,584,751	5.59%	2,212
2011	14,238,460	6,879,970	-	-	1,001,994	10,644,363	44,550	32,809,337	5.48%	2,144
2012	13,024,524	9,237,414	-	-	5,339,572	5,262,868	-	32,864,378	4.97%	2,106
2013	11,865,589	8,644,049	-	-	4,771,815	5,030,763	-	30,312,216	4.47%	1,979
2014	10,880,294	15,080,339	-	-	4,373,046	9,345,362	-	39,679,041	5.31%	2,572
2015	9,768,359	14,319,664	503,506	-	3,726,715	9,097,385	-	37,415,629	4.77%	2,351
2016	9,547,809	12,683,991	632,670	1,535,000	3,070,385	8,839,408	-	36,309,263	4.50%	2,290
2017	10,789,888	9,511,276	384,078	1,420,000	6,451,947	4,554,089	-	33,111,278	3.87%	2,068
2018	16,395,133	9,354,426	130,202	1,145,000	5,854,297	7,160,379	-	40,039,437	4.54%	2,487

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding					Percentage of Net Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available	Net General Bonded Debt Outstanding		
2009	18,250,890	19,791,199	38,042,089	365,943	37,676,146	2.33%	2,377
2010	16,779,536	18,717,767	35,497,303	341,419	35,155,884	2.12%	2,185
2011	15,240,454	17,524,333	32,764,787	349,270	32,415,517	2.02%	2,118
2012	18,364,096	14,500,282	32,864,378	354,029	32,510,349	1.97%	2,084
2013	16,637,404	13,674,812	30,312,216	160,157	30,152,059	1.84%	1,969
2014	15,253,340	24,425,701	39,679,041	168,040	39,511,001	2.33%	2,561
2015	13,495,074	23,417,049	36,912,123	154,343	36,757,780	2.04%	2,310
2016	12,618,194	21,523,399	34,141,593	59,725	34,081,868	1.77%	2,149
2017	17,241,835	14,065,365	31,307,200	99,242	31,207,958	1.55%	1,949
2018	22,249,430	16,514,805	38,764,235	-	38,764,235	1.81%	2,408

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 5 for property value data.

See Table 14 for population data.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2018

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	$ 658,737,415	2.418%	$ 15,930,776
Lewisville Independent School District	1,387,749,924	6.502%	90,225,850
Subtotal overlapping debt			106,156,626
City of Highland Village (direct debt)	27,024,761	100.0%	27,024,761
Total direct and overlapping debt			$ 133,181,387

Sources:

Assessed value data used to estimate applicable percentages provided by the Denton County Appraisal District. Debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Highland Village, Texas. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

CITY OF HIGHLAND VILLAGE, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2018	
Assessed value	$ 2,136,172,650
Debt limit ($2.50 per $100 of assessed value)	53,404,316
Debt applicable to limit:	
Tax supported debt	2,386,534
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	2,386,534
Legal debt margin	$ 51,017,782

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	$ 40,433,227	$ 41,453,047	$ 40,137,937	$ 41,202,091	$ 40,893,505	$ 42,366,121	$ 44,936,812	$ 48,033,391	$ 50,400,143	$ 53,404,316
Total net debt applicable to limit	1,909,108	2,308,177	2,231,680	2,262,042	2,369,304	2,478,463	2,842,629	2,495,691	2,524,780	2,386,534
Legal debt margin	$ 38,524,119	$ 39,144,870	$ 37,906,257	$ 38,940,049	$ 38,524,201	$ 39,887,658	$ 42,094,183	$ 45,537,700	$ 47,875,363	$ 51,017,782
Total net debt applicable to the limit as a percentage of debt limit.	4.72%	5.57%	5.56%	5.49%	5.79%	5.85%	6.33%	5.20%	5.01%	4.47%

Note:

According to The State of Texas Constitution, Article 11, Section 5, provides in part that, "…no tax for any purpose shall ever be lawful for any one year, which shall exceed 2.5% of the taxable property of such city." As a home rule city, the City of Highland Village is not limited in the amount of debt it may issue.

CITY OF HIGHLAND VILLAGE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

	Water and Wastewater System Revenue Bonds						
Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2009	7,703,794	5,901,886	1,801,908	708,043	450,115	1,158,158	1.56
2010	7,431,980	6,751,790	680,190	877,687	599,289	1,476,976	0.46
2011	9,098,999	6,725,115	2,373,884	958,329	499,271	1,457,600	1.63
2012	8,775,422	8,517,784	257,638	995,000	348,478	1,343,478	0.19
2013	8,498,147	6,642,770	1,855,377	800,000	347,277	1,147,277	1.62
2014	8,116,969	7,284,308	832,661	840,000	398,349	1,238,349	0.67
2015	7,905,718	7,266,680	639,038	860,000	424,163	1,284,163	0.50
2016	8,030,237	7,271,123	759,114	880,000	402,788	1,282,788	0.59
2017	8,251,419	7,503,415	748,004	905,000	332,284	1,237,284	0.60
2018	10,120,828	8,020,025	2,100,803	790,000	286,878	1,076,878	1.95

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Gross revenues do not include capital contributions. Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF HIGHLAND VILLAGE, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Calendar Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2009	15,850	623,158,600	39,316	7.5%
2010	16,090	636,713,480	39,572	7.1%
2011	15,305 *	598,930,565	39,133	6.9%
2012	15,602	661,072,342	42,371	5.6%
2013	15,315	677,964,420	44,268	5.4%
2014	15,429	747,797,343	48,467	4.2%
2015	15,915	784,959,630	49,322	3.4%
2016	15,859	807,096,228	50,892	3.6%
2017	16,012	855,857,412	53,451	3.1%
2018	16,100	881,539,400	54,754	3.1%

Source: U. S. Census Bureau
Texas Workforce Commission
Bureau of Economic Analysis

Note: Population estimates are based on residential sewer connections.
*2011 population estimates are based on 2010 census

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

	2018	2009
Employer	Employees	Employees
ExcelWipe, LLC	250 - 499	-
City of Highland Village	100 - 249	100 - 249
Lewisville Independent School District	100 - 249	100 - 249
Walmart Supercenter	100 - 249	-
Whole Foods Stores	100 - 249	-
AMC Highland Village 12	50 - 99	-
Excite Gymnastics & Cheer	50 - 99	-
Home Instead Senior Care	50 - 99	-
Ihop Restaurant	50 - 99	-
Re/Max Cross County	50 - 99	-
Rosa's Café & Tortilla Factory	50 - 99	-
TJ Maxx	50 - 99	-
Lifes a Beach, Inc.	-	100 - 249
Excite! Gymnastics & Cheer LLC	-	50 - 99
Just for Fun of North Texas, Inc.	-	50 - 99
Salerno Pizza Co	-	50 - 99
Employee United Co., Inc.	-	20 - 49
Tri Rae Enterprises, LLC	-	20 - 49
Marla R Conger MD PA	-	20 - 49
Loubel, Inc.	-	20 - 49
Prime Kids, LLC	-	20 - 49

Source: Texas Workforce Commission

CITY OF HIGHLAND VILLAGE, TEXAS

FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
City manager	2	2	2	2	2	2	2	2	2	2
Finance	10	11	12	12	13	13	11	11	10	10
Human resources	3	3	3	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Information Services	-	-	-	-	-	4	4	6	7	7
City Attorney	3	3	2	1	-	-	-	-	-	
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	37	37	38	38	39	41	44	46	45	45
Fire	15	18	18	18	18	18	19	22	22	22
Community services	4	4	4	5	5	5	5	5	4	4
Streets and drainage	16	17	16	16	15	15	15	14	15	15
Parks and recreation	15	15	16	16	17	17	17	17	17	17
Water and wastewater	17	17	17	18	18	18	18	19	19	19
Highland Village Community Development Corporation	1	2	2	2	2	2	3	3	3	4
Total	129	135	136	137	138	144	147	154	153	154

Source: Various City departments

Notes: A fulltime employee is scheduled to work 40 hours per week (including vacation and sick leave).

CITY OF HIGHLAND VILLAGE, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2009	2010	2011	2012
General government				
Open records requests processed	113	142	149	184
Court cases filed	2,369	3,182	2,704	1,220
Employee turnover (%)	7.60%	9.80%	14.00%	16.00%
Emp safety lost time injuries	-	1	2	-
Technical support tickets closed				
Community Service				
Permits issued	1,158	1,083	1,250	1,386
Inspections performed	2,468	3,398	2,911	2,928
Police				
Reported offenses	375	324	340	273
Arrests	298	307	321	232
Service	7,761	7,329	7,022	6,324
Close patrols	9,119	5,986	4,331	10,249
Traffic citations issued	2,342	3,670	2,480	1,305
Traffic warnings issued	3,192	3,857	4,626	2,010
Motor vehicle accidents	258	251	197	189
Animal impounds	*	360	216	221
Animal care calls	3,130	3,826	2,105	4,656
Animal registrations	844	1,148	580	873
Fire				
EMS calls	691	615	566	525
Fires calls	456	400	504	549
Streets and Drainage				
Drainage materials (ft.)	5,924	6,364	9,268	34,021
Asphalt (tons)	719	220	402	1,148
Concrete(yards)	59	102	937	4,216
Cold patch (lbs)	3,810	2,762	3,000	53
Crack seal (lbs)	20,853	6,295	21,558	-
Paint (gal)	175	140	301	89
Sod replacement (yards)	-	-	-	-
Saw cuttings	3,268	1,069	10,578	16,568
Spoils (yards)	1,979	1,639	577	3,605
Sign Repairs (hours)	139	532	700	159
Work orders completed (Maintenance)	2,028	713	534	264
Total fuel consumption	67,225	**47,984	65,789	58,692
Parks and recreation				
Acres of turf mowed	6,154	6,154	4,686	*
Parks turf maintenance				
Park maintenance (man hours)	*	*	*	5,126
Bags of trash disposed (55 gal)	5,800	5,800	4,898	*
Trash removal (man hours)	*	*	*	1,253
Recreation/Special Events Participation	24,940	25,041	30,342	19,798
Water				
New connections	18	28	33	59
Field operations work orders completed	8,001	7,305	5,379	14,822
Peak daily consumption	7,427,600	7,235,926	7,220,700	8,099,400
Maximum daily capacity-water production	7.54 MGD	7.54 MGD	6.46MGD	6.93MGD
Number of gallons pumped	1,050,873,400	984,344,630	1,236,291,896	1,094,066,900
Number of gallons sold	952,105,000	888,988,200	1,188,799,975	1,070,560,100
Wastewater				
Wastewater work orders completed	1,399	1,396	1,148	1,620
Wastewater gallons pumped	413,215,000	577,082,000	462,414,000	446,910,000

Source: Various City departments
* Not available

**During Fiscal Year 2009-2010 the City's Fuel Station was not in use due to Facility Construction, therefore Total Fuel Consumption does not include 4 months

2013	2014	2015	2016	2017	2018
220	240	224	281	288	277
2,284	1,962	1,524	1,782	1,518	1,547
11.70%	10.70%	7.50%	11.70%	9.00%	7.10%
1	2	-	-	-	1
		1,046	807	774	747
1,424	1,466	1,343	1,336	4,533	2,758
2,923	2,889	2,946	2,633	4,949	4,313
227	262	306	452	609	565
255	271	281	267	325	272
5,884	4,928	5,164	6,617	6,962	6,221
7,174	12,492	8,259	6,957	7,193	13,729
2,119	2,221	1,716	1,352	1,129	1,128
2,622	3,008	2,841	2,337	3,010	3,217
194	204	162	239	257	261
*	230	172	243	220	187
*	1,554	687	1,413	1,410	1,252
*	907	690	865	676	620
568	591	601	602	685	682
350	457	493	526	610	587
*	*	*	*	*	*
316	157	426	716	301	227
406	197	270	204	213	622
600	900	3,575	4,800	30,000	25,000
-	-	125	200	18,000	14,406
140	156	20	30	15	56
329	250	25	15	86	261
11,996	28,334	17,832	14,952	12,336	16,957
3,402	404	961	828	966	124
196	98	48	107	42	80
1,860	1,903	1,837	1,818	1,821	1,809
59,415	60,448	55,897	59,198	60,000	57,000
11,448	4,931	*	*	*	*
			6,525	6,525	6,525
6,525	*	24,012	23,899	23,950	23,950
7,200	6,160	8,260	*	*	*
2,816	*	2,816	2,816	2,920	2,920
20,894	22,608	20,288	19,051	29,603	29,003
15	16	17	37	26	13
16,687	9,815	10,675	10,815	10,064	9,370
6,780,300	6,929,900	7,500,000	7,500,000	7,500,000	7,500,000
7.20MGD	7.20MGD	7.20MGD	7.20MGD	7.2MGD	7.2MGD
1,162,636,600	1,044,346,300	1,056,000,000	991,177,900	928,836,200	995,892,200
1,152,288,922	934,653,200	1,008,000,000	931,105,700	888,844,700	1,017,767,600
1,123	4,156	4,867	4,740	4,378	4,785
374,111,518	381,156,000	604,500,000	572,924,000	425,469,000	411,460,879

TABLE 18

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government										
City area (in miles)	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Streets and Drainage										
Streets (miles)	159.0	90.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Traffic signals	1	1	3	3	3	3	3	3	3	3
Parks and recreation										
Acres of parks	366	366	335	318	318	318	318	318	318.2	393
Trail system (linear miles)	6.7	6.7	6.7	7.1	10.0	11.7	11.7	12.7	12.7	12.7
Water										
Number of meters in service	5,294	5,322	5,357	5,416	5,422	5,439	5,456	5,483	5,521	5,536
Water mains (in miles)	94	95	100	100	100	98	99	100	100	102
Fire hydrants	739	741	754	766	770	780	780	811	815	825
Wastewater										
Storm sewers (miles)	25	38	23	23	24	24	25	25	25	25
Sanitary sewers (miles)	91	92	98	98	98	98	98	99	99	100
Sewer connections	5,103	5,121	5,119	5,212	5,218	5,235	5,253	5,276	5,307	5,325

Source: Various City departments

COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor
and City Council of
City of Highland Village, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Highland Village, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Village, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Highland Village, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland Village, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 26, 2019